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World News

Walesa calls for special powers to speed reform

Lech Walesa, leader of the Solidarity trade union, called for sweeping powers to be given to the Polish Government, allowing it to enact economic reforms by decree to overcome delays in parliament. Walesa, speaking as the Government finalised a tough economic adjustment programme with the International Monetary Fund, said Poles were losing patience with the slow pace of reform. Page 2

Czechoslovak purge
Thirteen hardline members of the main praesidium of the bicameral assembly, including ousted Communist Party chief Milos Jakes and former Politburo members Josef Lenart, Alois Indra and Karel Hoffman, resigned their posts at the start of a joint session. Tussle over President, Page 2

US faces China row
The Democrat-controlled US Congress is set for an early confrontation with President George Bush over his China policy after the visit of two of his top foreign policy advisers to Peking last weekend. Page 3

Delors EMU call
Jacques Delors, president of the European Commission, called for separate inter-governmental conferences to deal with economic and monetary union and reform of European institutions. Page 16

Kibbutzim debt deal
The Israeli Government and leading banks concluded an agreement with the country's kibbutz movements, writing off or rescheduling the bulk of their Sh6.7bn ($2.3bn) debts in an unprecedented deal aimed at saving the famous rural collectives from collapse. Page 4

100m young at risk
Spending by developing countries on arms and debt service will on present trends lead to the death and starvation of 100m children in the 1990s, according to a report published by Unicef. Page 4

Manila army revamp
The Philippines is revamping the army to try to prevent more coup attempts against President Corazon Aquino, by sacking a general and an intelligence chief and scattering mutinous soldiers to units around the country. Page 4

Ethiopian food route
President Daniel arap Moi of Kenya said that Ethiopia had agreed to open safe passage corridors to allow food to reach up to 4m people facing starvation in the provinces of Tigray, Eritrea, Gonder and Wollo. Page 4

E German union plan
IG Metall, West Germany's biggest union, announced plans to co-operate with East German trade unionists to prevent them from being exploited by West German firms.

Westlands grounded
All British-made Westland-30 helicopters in service in India were grounded after passengers refused to fly in them alleging they were unsafe. Page 4

Japan boosts aid
Japan will give an extra $50m in technological and food aid to Poland and Hungary, the Kyodo News Service said. The Government has already pledged $150m in emergency aid to Poland.

Prague drops sale
Czechoslovakia has suspended a plan to sell off part of its state art collections abroad after protests against liquidating the national cultural legacy for badly needed hard currency.

Business Summary

Volvo to sell food unit and drugs stake for SKr24bn

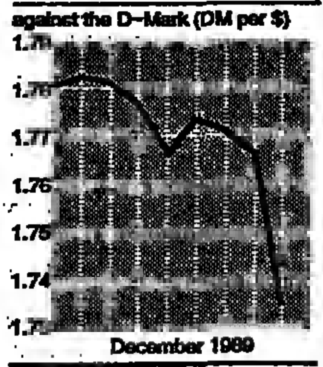
Procordia, Swedish state holding company, is to buy Pharmacia, pharmaceuticals company, and Provendor, the food unit owned by Swedish car maker Volvo, in a deal valued at SKr24bn ($3.8bn), according to ministry sources. Share trading in Procordia, Provendor and Volvo was suspended on the Stockholm bourse yesterday. Page 18

EMERSON Electric, leading US electricals group, has launched a FFr2.9bn ($483m) agreed bid for Leroy-Somer, France's top producer of electric drives and motors for industry. Page 17

APPLE Computer of the US announced sales were below forecasts prompting stocks to take a nosedive. Page 17

D-MARK surged to its highest level against the US dollar for more than a year on talk that inflationary pressures will eventually force the Bundesbank to raise West German interest rates. The D-Mark gained 3.15 pfennigs to DM1.7345. Page 34

Dollar
against the D-Mark (DM per $)



WATER privatisation: Shares in the 10 water companies of England and Wales shot to premiums of about 45p on the 100p partly paid price in dazzling debut dealings on the stock market. Page 16; Adding fizz, Page 17

PROVINSBANKEN, Jutland-based bank, agreed to join the merger between Danske Bank and Copenhagen Handelsbank, creating the Nordic region's biggest bank. Page 17

SWAN Hunter and Yarrow, two British shipyards, are understood to be competing against each other for a contract worth between £150m ($236.85m) and £200m to supply two fully armed warships to Malaysia. Page 6

CHINA International Trust and Investment Corporation, state-owned private investment arm, has bought a 26 per cent stake in Dragonair, Hong Kong airline. Page 19

GENERAL Motors of the US is to invest $49m in Portugal to build an electronic components plant as part of the expansion of its European automotive components operations. Page 18

WESTERN Europe's most powerful textile groups are joining forces to create an organisation to represent the industry on trade issues including the forthcoming negotiations over the future of the Multi-Fibre Arrangement. Page 16

JAPAN'S merchandise trade surplus for November fell to $3.53bn, down from $6.56bn a year earlier, but the bilateral surplus with the US remained large and will continue to be a source of tension. Page 16

CONTROL Data Corporation, struggling US computer manufacturer, hopes to sell several large mainframe systems to the Soviet Union in a $32m deal. Page 6

ELECTRONIC Industries Association of Japan announced a 10-point plan to increase foreign penetration of the local semiconductor market and to deflect US criticism of market access. Page 6

Britain halts repatriation of Vietnamese boat people

BRITAIN yesterday announced a temporary halt to the involuntary return of Vietnamese boat people from Hong Kong but signalled its determination to press ahead with its plans in order to prevent further inflows next year, write Ralph Atkins in London and Peter Riddell in Washington.

Mrs Margaret Thatcher, the Prime Minister, and Mr Douglas Hurd, Foreign Secretary, were forced to mount a robust defence of ejections from Hong Kong, which began with the return of 51 people to Hanoi on Tuesday, in the face of condemnation at home and abroad.

The US Government denounced the repatriation. Mr Marlin Fitzwater, White House spokesman, said: "The US position is that involuntary repatriation is unacceptable until conditions improve in Vietnam." He added that "the country of first asylum has responsibility."

Mr Richard Boucher, deputy State Department spokesman, said: "We believe British authorities should continue to grant asylum to all those persons from Vietnam who seek it in accordance with the comprehensive plan of action adopted in Geneva in June by the United States, the United Kingdom, Vietnam, the Asean (Association of South-East Asian Nations) countries and others."

Mr Hurd said no more people would be returned until at least after a debate in the House of Commons next Tuesday. Two parliamentary representatives are to go to Vietnam next month to act as independent observers reporting on the conditions of those already returned.

The return of boat people from Hong Kong was essential, Mr Hurd said, "to show people who may even now be planning to come in the spring, when the winds change and the season begins, that it is not a happy voyage." He sought greater international cooperation to stem the inflow.

The issue has replaced Northern Ireland as the most controversial in US/British relations. British officials accuse the US of hypocrisy on the grounds that US sanctions against Vietnam are preventing an improvement in conditions inside the country. Moreover, the US itself has sent Haitians landing in Florida back home to conditions that it claims are better than those facing the repatriated Vietnamese.

Mrs Thatcher was unflustered by international criticism. "Those countries protesting at the return would do far better if they offered to take some of them," she said.

Meanwhile, the mood in Hong Kong's detention centres remained calm as the news of the pre-dawn flight to Hanoi became known. But extra riot police were placed on guard outside the camps.

Almost 57,000 boat people
Continued on Page 16
Background, Page 4; Editorial comment, Page 14

New role for Nato proposed ● German unity should be gradual

Baker's vision of a 'whole and free' Europe

By Leslie Colitt in Berlin and Robert Mauthner in London

MR JAMES BAKER, US Secretary of State, yesterday proposed a new political role for Nato in promoting East-West relations and closer institutional links between the US and the European Community to deal with the quickening pace of change in Europe.

In an important policy speech to the Berlin Press Club, Mr Baker said the US and Nato would not waver from their long-standing support of the goal of German unity, but stressed that unification had to be a gradual process.

It would have to take place within a Europe "whole and free" and in the context of Germany's continued commitment to Nato and an increasingly integrated EC.

Mr Baker also met Mr Hans Modrow, East Germany's new reformist Prime Minister and signalled strong support for the country's democratic transformation.

The US Secretary of State said that as Europe changed, the instruments for Western co-operation had to be adapted accordingly. A new structure had to accomplish two special purposes:

First, as part of overcoming the division of Europe there must be an opportunity to overcome through peace and freedom the division of Berlin and Germany. Second, the architecture should reflect that US security – politically, militarily and economically – remained linked to Europe's security.

Mr Baker reiterated President George Bush's declaration to the Nato summit last May that the US was and would remain a European power.

The example of western co-operation through the EC had already had a dramatic effect on Eastern attitudes towards economic liberty, Mr Baker went on. The success of "this great European experiment," perhaps more than any other factor, had caused Eastern Europeans to recognise that people as well as nations co-operate more productively when they are free to choose.

As Europe moved toward its goal of a common internal market, and as its institutions for political and security co-operation evolved, the link between the US and the EC would become even more important. Mr Baker therefore proposed that the US and the EC should try to achieve, whether in a treaty or some other form, "a significantly strengthened set of institutional and consultative links."

He suggested that discussions on this subject should proceed in parallel with Europe's efforts to achieve by 1992 a common internal market.

The new Europe in the making also called for a "new Atlanticism." Nato would remain North America's primary link with Europe, but as arms control and political arrangements increasingly supplemented the still vital military component of European security, Nato would have to take on new roles.

Among new missions he proposed for Nato, the most important was the forging of economic and political ties with the east, to promote respect for human rights, help build democratic institutions in Eastern European countries and stimulate East-West trade and investment.

The others concerned acceleration of the Vienna negotiations on a conventional forces reduction agreement, establishment of a Nato Arms Control Verification Staff to assist member governments and dealing with other challenges to European and Atlantic security, such as regional conflicts and the proliferation of nuclear, chemical and biological weapons.

These activities should take place under the umbrella of the Conference on Security and Co-operation in Europe (CSCE), which would become the principal forum for the discussion of east-west relations.

Mr Baker's speech to the Berlin Press Club was attended by the Soviet Ambassador in East Berlin, Mr Vjatcheslav Kotchemassov, in a remarkable display of common concern over the rapid political changes in East Germany.

Full text of speech, Computer voting baffles Moscow, Meeting with Modrow, US links with W Europe, Page 2; Editorial comment, Page 14

James Baker, US Foreign Secretary, peers through a crack in the Berlin Wall near the Potsdamer Platz crossing point yesterday

Deutsche Bank appoints new chief executive

By Haig Simonian in Frankfurt

MR HILMAR KOPPER will be the new speaker (chief executive) of Deutsche Bank, West Germany's biggest bank, in succession to Mr Alfred Herrhausen, who was murdered by a terrorist bomb last month.

Mr Kopper, 54, who is currently responsible for Deutsche Bank's new issues business, most recently made his mark masterminding its acquisition of Morgan Grenfell, the UK merchant bank, for £950m.

The decision to appoint a single speaker, rather than the two-man system which applied for many years until Mr Herrhausen took over the job solely in May last year, came as a surprise.

The bank's managing board had been widely expected to appoint both Mr Kopper and Mr Ulrich Weiss, the managing board member responsible for personnel and auditing, as joint speakers.

The decision to appoint Mr Kopper triggered mixed feelings both within the bank and in wider West German financial circles yesterday, as rumours spread regarding the reasons behind the decision.

While liked in the bank as one of its most straightforward and easy-going senior executives, some have criticised Mr Kopper, who joined Deutsche Bank as an apprentice, as being less strong on strategy.

The choice of Mr Kopper to replace the charismatic and rhetorically gifted Mr Herrhausen will mark a sharp change in style. Unlike Mr Herrhausen, who never felt reluctant to speak out on a variety of issues Mr Kopper is likely to concentrate more on the bank.

Further details of the background to the decision may emerge at the bank's postponed autumn press conference later today, when Mr Kopper faces his first major test.

Kopper: masterminded Morgan Grenfell deal

With the likelihood that he will announce record 10 months' profits, few changes are expected from Mr Kopper in the short term.

Having given up his responsibilities for international commercial banking when he took Mr Herrhausen's investment banking role last May, he is now expected to drop his current duties in favour of his predecessor's concentration on group strategy and communications.

Despite the criticisms, strategy may already have been playing an increasing role for Mr Kopper in the run-up to the Morgan Grenfell deal. Speaking of the importance of corporate finance he said last month, "This part of the business is an activity which thinks, speaks and acts Anglo-Saxon. It's a different mentality. We will gain a foothold in the heart of that market."

US signs bilateral accords with major steel-producing nations

By Nancy Dunne in Washington

US TRADE officials said yesterday they have reached an unprecedented series of bilateral agreements with all major Western steel-producing countries and the EC to phase out government support for steel industries.

For the first time, said Mr Linn Williams, the deputy US trade representative, governments have acted against "the causes rather than the symptoms" of trade-distorting steel measures and agreed to limit their domestic subsidies.

The achievement, he said, was made possible by the "relatively good market" for steel and President Bush's decision to seek liberalisation and renewing "voluntary" US quotas for only 2½ more years.

The Bush Administration views the pacts as a first step towards a multilateral agreement. They were negotiated in tandem with new quotas, and countries which agreed to eliminate subsidies were awarded additional shares of the US steel import market.

Japan's merchandise trade surplus fell last month, but its bilateral surplus with the US stayed high and will continue as a source of tension between the two. Page 16

The EC, for example, had its share raised from 6.7% of the market, negotiated under the previous five-year quota, to 7%. Japan, which also signed the "consensus agreement", agreed to drop its share from 6.2% to 5% because its steel imports to the US have been falling.

South Korea, Brazil, Mexico, Australia and Trinidad and Tobago also signed the liberalisation programme. Together with Japan and the EC, they account for over 90% of the steel imported from countries included in the US programme.

Under the new agreements, signed separately with 16 countries and the EC, this year's shipments will be held to 19.1% of the US market. The level will rise slightly in the following two years.

The new arrangements slash quotas for oil country tubular goods and pipe and tube imports, while boosting shipments of semi-finished and specialty steel and plate.

Talks on the subsidies phase-out are continuing with other countries, including Austria, Finland and Yugoslavia.

Although the details vary from country to country - and actually permit some current subsidies to stay in place - all the bilateral agreements incorporate the following:

- Prohibition against future subsidies and other government supports for steel;
- Prohibition against establishing or reinstating non-tariff measures;
- Commitments to eliminating subsidies and reducing "trade-distorting" assistance for steel within the Uruguay Round;
- Binding arbitration over violations of the agreement. Remedies include increasing or decreasing US quota shares and higher duties.

MARKETS

STERLING
New York lunchtime: $1.6081
London: $1.6035 (1.5995); DM2.78 (2.8075); FFr9.51 (9.595); SFr2.53 (2.5375); Y230.75 (229.5); £ index 87.1 (87.0)

GOLD
New York: Comex Feb $422.8
London: $(418.75)

N SEA OIL (Argus)
Brent 15-day Jan $19.475

DOLLAR
New York lunchtime: DM1.7335; FFr5.9275; SFr1.5739; Y143.90
London: DM1.7345 (1.766); FFr5.93 (6.0375); SFr1.577 (1.597); Y143.85 (144.45); $ index 68.3 (68.7)
Tokyo close: Y144.47

US LUNCHTIME RATES
Fed Funds 8½%
3-mo Treasury Bills: yield: 7.90%
Long Bond: 102½; yield: 7.89%

STOCK INDICES
FT-SE 100: 2,363.5 (+12.1)
FT Ordinary: 1,861.5 (+9.7)
FT-A All-Share: 1,177.00 (+0.4%)
New York lunchtime: DJ Ind. Av. 2,733.38 (+5.12); S&P Comp 349.16 (+0.60)
Tokyo: Nikkei 37,803.53 (+50.86)

LONDON MONEY
3-month interbank: closing 15⅛% (same)
Liffe long gilt future: Mar 92⅝ (92¼)

Chief price changes yesterday: Page 17

MARKET REPORTS: CURRENCIES, Page 34, BONDS Page 21
COMMODITIES, Page 26, EQUITIES Pages 27 (London), 35 (World)

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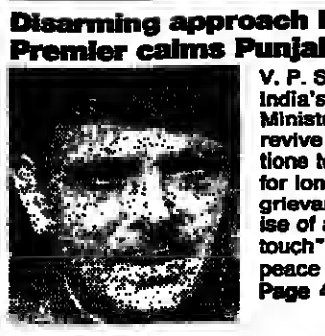
Disarming approach by India's Premier calms Punjab gunmen



V. P. Singh (left), India's new Prime Minister, plans to revive political institutions to find a formula for long-standing Sikh grievances. His promise of a "healing touch" has raised peace hopes. Page 4

Walesa calls for special powers to speed up reforms

MR Lech Walesa, leader of Solidarity's trade union, said yesterday that Poland's Solidarity-led government should be given sweeping powers to push economic reforms through by decree to overcome delays in parliament, Reuter reports from Warsaw.

In a statement issued as the government finalised a tough economic adjustment programme with the International Monetary Fund, the Solidarity leader said Poles were losing patience with the slow pace of reform.

He said parliament should give the government of Prime Minister Tadeusz Mazowiecki sweeping powers for a limited period to decree structural changes in key areas of the economy.

"I am fully aware that the proposal is controversial but I am forced to propose it because of the situation of the country and society's growing impatience," Mr Walesa said.

"The situation of the country is getting worse. Time is running out and the confidence of society is running low."

Mr Walesa who campaigned for years for parliamentary democracy when Poland was under communist rule, said that if parliament gave the government special economic powers it would "have the chance to work quietly on other important legal acts and possibly correct some decisions made by the government."

Parliament opens a three-day session next week to debate the adjustment plan and 20 enabling bills and resolutions designed to curb 450 per cent inflation and create the structures of a capitalist economy.

The government is anxious to introduce the programme on January 1 but fears that lengthy parliamentary procedures and opposition from leftist deputies may prevent the laws from being enacted in time.

Solidarity's parliamentary bloc, which lacks a majority in the Sejm (lower house), has recently shown signs of disunity and includes leftists likely to oppose the tough, IMF-approved programme.

Officials say the government expects the plan to cause a 12-20 per cent drop in national incomes and 400,000 unemployed.

"I propose giving the government special powers for legal regulation of the following questions – restructuring the economy, property changes, de-monopolisation of the state and cooperative sector, the tax system, the accounting system, banking and changes of the state structure including local councils," Mr Walesa said.

IMF Managing Director Mr Michel Camdessus wound up negotiations on the new economic programme with Polish officials in Warsaw by warmly endorsing the plan.

G7 finance ministers to hold secret talks

By **Peter Norman**, Economics Correspondent

SENIOR finance ministry officials from the Group of Seven countries will meet in Paris on Friday as part of an intensive and secretive round of consultations among the world's leading industrial nations.

It is understood that the Paris meeting of the so-called G-7 deputies will concentrate on Western financial support for eastern Europe.

The officials from the US, Japan, West Germany, France, Britain, Italy and Canada met in Frankfurt on Monday to discuss the difficult question of increasing the IMF's resources.

The deputies generally meet around this time of year but the flurry of meetings is unusual. The Paris meeting will be the third such gathering to have become public since the G7 group met in London last month.

● The heads of European Community central banks yesterday elected Mr Karl Otto Pöhl of West Germany's Bundesbank as their chairman for three years, Reuter adds from Basle.

Economists said it would give Pöhl, who succeeds Bank of Greece governor Dimitris Chalikias, a leading role in shaping the Community's future monetary policy, part of which envisages the creation of a unified EC central banking system.

"I was elected for three years," Pöhl told reporters after the regular monthly meeting of the Committee of Central Bankers of the EC at the Bank for International Settlements in Basle. "That is remarkable because normally in the past it was only for one year."

Baker holds talks with E German premier

By **Leslie Colitt** in East Berlin

MR James Baker yesterday became the first US Secretary of State to visit East Germany when he met the country's new reformist Prime Minister, Mr Hans Modrow, and signalled strong support for the country's democratic transformation.

After calling in a speech in West Berlin for a new Europe, Baker matched words with deeds by driving over the Glienecke Bridge, the scene of many Cold War spy swaps, for a one-hour meeting with Mr Modrow.

The two men met in a hotel in the symbolic setting of Potsdam, outside Berlin, where in 1945 the four wartime Allies signed the Potsdam Agreement for defeated Germany.

The choice of Potsdam for yesterday's meeting was partly governed by the refusal of the US and the other Western allies to recognise East Berlin as the legal capital of East Germany.

Mr Baker is the most senior Western official to have met Mr Modrow since he was chosen last month to head a coalition government led by the Communist Party.

The East German news agency, ADN, issued a bland statement after the meeting noting that they discussed the current international situation and bilateral relations. American officials, however, said reunification was not on the agenda of the surprise meeting, which was urged on Mr Baker by the US Ambassador to East Germany, Mr Richard Barclay.

US officials said Mr Modrow told Mr Baker that the process of renewal in East Germany was "irreversible." The Secretary of State in turn held out the prospect of US economic aid for East Germany if free elections were held as scheduled on May 6.

Afterwards Mr Baker met representatives of New Forum and other opposition groups in the Nikolai Church.

Mr Modrow later told reporters: "This is satisfying; dialogue has begun. I assume that this dialogue will lead to co-operation." One member of Mr Baker's party said of Mr Modrow: "He was an impressive guy. He has positioned himself as well as he can."

Mr Baker began his extraordinary day by having breakfast with Mr Helmut Kohl, the West German Chancellor, and then visiting the Berlin Wall at the recently-opened crossing point on Potsdamer Platz accompanied by Mr Hans-Dietrich Genscher, Bonn's Foreign Minister.

Computer voting baffles Moscow

By **Quentin Peel** in Moscow

in June last year, Mr Mikhail Gorbachev warned the Communist Party that learning democracy meant learning how to vote. It was going to be a long, slow process.

Yesterday they took a new and occasionally hilarious step along that road, struggling to come to terms with electronic voting, after years of simply raising their hands in unison.

The trouble is that the intervening six months since their last meeting have not been long enough for the country's new Congress of People's Deputies to get a fully-fledged system installed. One capable of handling the demands of 2,250-odd deputies at an early stage in the school of democracy.

Instead, thanks to computers and some 400 portable voting panels from Philips, the Dutch electronics company, a temporary system has been installed.

So they spent the first 20 minutes of their debating time trying to figure out how to use it. They then took the first vote on a good old-fashioned show of hands. The lengthy explanation from Mr Valentin Tetenov, chairman of the Information and Communications Commission, left more deputies baffled than enlightened.

First they had to insert individual magnetic cards, and the registration light would stop blinking. Then they should choose one of three buttons: yes, no or abstain. But there were problems.

"Please ignore the square button at the bottom, which does not operate," he said. "It is supposed to switch on a microphone. And the three lights on the right should not be used. They should be ignored." He did not say why.

When he asked for a mock vote to check how many were registered, the handsome Philips display screens showed a grand total of 333, instead of the 2,106 welcomed only minutes before by Mr Gorbachev.

When they tried again, they pushed up the score to 1,986. "We still seem to have lost a few deputies," Mr Gorbachev admitted. When it came to the first real vote, the deputies opted for a show of hands. "I see you are all scared of these voting machines," Mr Gorbachev said. But even he was not prepared to leave anything to technological chance.

"Machines are machines, but let us elect a counting commission just in case we need it," Mr Gorbachev said.

But his troubles were still not over. Deputies complained that their cards did not register. Others said whole rows were being disenfranchised by faulty machines.

When Mr Gorbachev tried another test, he suggested that everyone should vote yes. "All in favour of the success of the Congress," he said.

The result was slightly embarrassing: 1,968 in favour, four against, one abstention. Was it deliberate? When it came to all voting no, the system packed up. "Who should we blame?" Mr Gorbachev demanded. "Is it Philips, or our own installation mechanics?"

But it all came good when the radicals demanded a named vote on whether or not to debate the monopoly on power of the Communist Party. Always presuming the names get published, the whole process took just three minutes, instead of hours. On the other hand, it didn't do the deputies' public image much good.

By last night, a new joke was going round Moscow: the deputies need four buttons, not three, they say. The fourth is for "don't understand".

The first three political prisoners freed by the new East German government leave Bautzen prison, nicknamed The Yellow Misery

Allies consider Berlin route for Lufthansa

By **David Marsh** in Bonn

THE Western allies have agreed to study the possibility of Lufthansa, the West German national airline, flying to Berlin as part of an overall review of East-West German air traffic after Monday's four-power conference.

Officials said yesterday that Monday's meeting in West Berlin of ambassadors from the US, Britain, France and the Soviet Union would lead to a series of future working party discussions, focusing especially on expanding air routes from Berlin and between the two German states. Common interest by both German states in a new air traffic accord was expressed yesterday in a meeting in Bonn between Mr Heinrich Scholz, the East German Transport Minister, and Mr Wilhelm Knittel, state secretary at the Bonn Transport Ministry.

The Western allies want to maintain the system of "air corridors" across the East-West German border laid down at the end of the Second World War. This is partly to guarantee access to Berlin from West Germany for security reasons.

Allied control over these air corridors means that the new civilian flight routes between East and West Germany, started up since the summer by Lufthansa and the East German airline Interflug, have to pass over Czechoslovakia and the Baltic. When Mr Helmut Kohl, the West German Chancellor, flies to Dresden next week, for instance, he will be unable to cross over the inner-German border.

Along the lines of a package to improve both East-West and North-South air access from and to Berlin, the allies now, however, are willing to discuss expanding the permitted routes. Additionally, the 45-year-old regulation setting "corridor" flights at 10,000 feet is likely to be changed to permit higher altitudes.

As to the key question of allowing Lufthansa to fly to Berlin, from which it has been barred for 45 years, one official said yesterday: "We are not closed to the possibility of Lufthansa having a role." Mr Heinz Ruhnau, the Lufthansa chairman, has lobbied persistently for his airline to be allowed to include Berlin in its route destinations.

Tussle over new Czech president intensifies

By **John Lloyd** in Prague

CZECHOSLOVAKIA'S Parliament yesterday delayed choosing a successor to President Gustav Husak. The Federal Assembly took the action after the Communist caucus controlling the body said members should relinquish their constitutional duty and let the voters decide directly.

But Mr Stanislav Hanak, a member of the People's Party which has broken with the Communists, denounced the proposal as a delaying tactic. "This country quickly needs a president of respected moral quality. I propose Vaclav Havel," Mr Hanak said.

The acting assembly chairman and Socialist Party leader, Bohuslav Kucera, refused to allow the Communists to change a set legislative agenda and insisted their plan for the direct election be submitted to a legislative committee.

The 350-member assembly, with a 242 Communist majority, is constitutionally required to elect a new president by December 24 to replace Mr Husak who stepped down on Sunday.

The tussle over who will become president of Czechoslovakia has landed the Communist Party and Civic Forum in positions which sharply contradict their public stances.

The race remains open, with four candidates in the ring and with one of them – Mr Alexander Dubcek, the party leader deposed in 1969, yesterday receiving the formal backing of the National Council of his native Slovakia.

The Communist party – or some elements within its warring factions – is moving in favour of a direct popular election for the presidency, which would require legislation to change the constitution under which the president is chosen by the National Assembly.

By contrast, Civic Forum is pushing for the National Assembly to vote for a candidate in the next 11 days as laid down by the constitution – even though the assembly is Communist dominated. In effect, the assembly will rubber-stamp whichever candidate is agreed between the major parties.

The call for a popular presidential election was made on Monday night by the Democratic Forum of Communists, a fast-growing reformist organisation which is seeking to democratise the Communist Party. The call has been taken up by Communist deputies and yesterday some posters appeared on the streets supporting the election.

The presidential candidates besides Mr Dubcek are Mr Ladislav Adamec, former prime minister, Mr Cestmir Cisar, minister of education under Mr Dubcek in 1968 and Mr Vaclav Havel, the Civic Forum leader.

● Czechoslovak officials held discussions in Washington about rejoining the International Monetary Fund and World Bank last May, well before the change in political climate in Prague, adds Peter Riddell in Washington.

As reported at the time, both sides wanted to keep the talks secret and there was no immediate conclusion since major western shareholders, such as the US, did not support the then hardline Czechoslovakia rejoining the two bodies.

However, there is likely to be no problem now since the previous political objections have disappeared. A formal application had not yesterday been received in Washington and it will take some time to go through the necessary IMF and World Bank procedures.

The only formal criterion for membership of the IMF is that a country conducts its own foreign relations. There are no conditions about a market economy.) But a member has to sign articles of association which require annual consultations on economic policy, including a visit by fund staff, as well as the supply of regular economic data.

The IMF's staff will hold discussions on these matters. After any necessary domestic legislation has been passed, the application and the associated issue of the size of quota or membership subscription will be considered by the fund's executive board before being put to a formal vote.

US seeks to strengthen links with W Europe

By **Robert Mauthner**, Diplomatic Correspondent

MR JAMES BAKER, the US Secretary of State, yesterday clearly signalled Washington's concern at the consequences of developments in Eastern Europe for Western unity and made it plain that the US fully intended to retain a leading role in a remodelled Atlantic Alliance.

Though President George Bush had already sketched out the broad lines of US policy towards Western Europe in particular at a Nato meeting last week, following his summit talks with Soviet President Mikhail Gorbachev in Malta, Mr Baker has taken the whole process one stage further.

US commitment to Western Europe was underlined in the most emphatic terms by Mr Baker, in his speech to the Berlin Press Club. America's security remained linked to that of Europe, politically, militarily and economically. But the changes which were taking plsca in Europe demanded "a new architecture" for western co-operation.

Mr Baker's proposals for a strengthening of the institutional and consultative links between the US and the European Community reflects Washington's recognition of the EC as an equal economic and, increasingly, political partner.

Less explicitly, however, they are also an indication of concern that the western alliance should not lose its cohesion as the result of Bonn's growing preoccupation with the prospect of German unification and its relations with Eastern Europe.

By proposing to strengthen the ties between the US and Western Europe, Washington clearly hopes to provide a guarantee that German reunification, if it occurs, will take place in a western framework and will not lead to a loosening of the ties between Bonn, on the one hand, and the EC and Nato, on the other.

The other major US concern is that Nato, at present mainly a military alliance, should not lose its *raison d'être* as the result of the lowering of political tension and disarmament in Europe. The "new Atlanticism" should include a conversion of Nato into a more general alliance which, while still dealing with security issues, would increasingly concern itself with political and economic relations with the Soviet Union and Eastern Europe.

In the field of disarmament, Nato would be given an enhanced role for arms control verification, with its own specialised staff assisting member governments in monitoring compliance with arms control agreements. It would also be given a new mission to conduct western consultations on regional conflicts, as well as dealing with the problem of the proliferation of nuclear, chemical and biological weapons.

Its most important task, however, would be to work out the new political and economic relationship with the East, including the fostering of east-west trade and investment and the promotion of democratic institutions and practices in Eastern Europe.

All this would be done under the umbrella of the Conference of Security and Co-operation in Europe, which already provides the framework for the negotiations on conventional arms reductions and discussions on human rights. The CSCE process would become the most important forum for East-West co-operation and Nato, in Washington's eyes at least, would be the West's principal spokesman.

It is by no means certain, of course, that all of Mr Baker's ideas will be embraced enthusiastically by the European Community members, some of whom might baulk at enshrining the closer relationship with the US in a new treaty, as suggested by Mr Baker.

France, which is a member of the Atlantic Alliance but does not participate in Nato's integrated military structure, is also likely to have reservations about making Nato the West's main representative in its relations with the Soviet Union and Eastern Europe.

However, the proposal for closer consultation and co-ordination of policies between the US and the European Community will doubtless gain wida approval in Western Europe, and Nato Foreign Ministers will have a chance to express their first reactions at their winter meeting in Brussels starting tomorrow.

E German industrialist fears western buy-up

By **David Goodhart** in Weissenfels

The East German Government ahould sell its citizens their own flats and, eventually, shares in the companies they work in, according to Mr Joachim Lezoch, general director of the East German shoe industry, and an infinential pro-reform industrialist.

Mr Lezoch, speaking in his office in Weissenfels, just south of Leipzig, said that with effective economic reform and tight monetary policy the East German currency could be ready for convertibility within two to three years. As a temporary measure to satisfy consumers he proposed that the Government bny in bulk goods, snch as cars from Japan, which domestic industry is failing to supply.

Like other economic reformers in East Germany he fears a "bny-up" of East German industry if joint venture rules are too liberal and said East German companies would prefer "for psychological reasons" to do business with western countries other than West Germany.

Mr Lezoch remains relatively unmoved by the continuing outflow of mainly young people. He maintained that apart from special cases like doctors most of those going west were no great loss to the economy.

About 2,000 East Germans a day are continuing to opt for a life in West Germany despite the political upheaval of recent weeks, and the East German press is now openly reporting problems in some parts of the public services. The redeployment of former "stasi" officers, members of the semi-disbanded security service, is helping to plug gaps in some areas. The number of East Germans who have permanently settled in West Germany this year is now about 320,000.

'A new architecture for a new era . . .'

This is an edited version of Mr James Baker's speech in Berlin:

FREE men, and free governments, are the building blocks of a Europe whole and free. But hopes for a Europe whole and free are tinged with concern by some that a Europe undivided may not necessarily be a Europe peaceful and prosperous. Many of the guideposts that brought us securely through four sometimes tense and threatening decades are now coming down. Some of the divisive issnes that once brought conflict to Europe are re-emerging.

As Europe changes, the instruments for Western co-operation must adapt. Working together, we must design and gradually put into place a new architecture for a new era. . .

This new structure must also accomplish two special purposes. First, as a part of overcoming the division of Europe there must be an opportunity to overcome through peace and freedom the division of Berlin and of Germany. . .

Second, the architecture should reflect that America'e security – politically, militarily and economically – remains linked to Europe's security. . .

The charge for us all then is to work together toward the New Europe and the New Atlanticism. . .

Nato's first new mission. We have moved significantly closer to concluding an agreement limiting conventional armaments from the Atlantic to the Urals. In Malta, President Bush proposed a summit meeting to sign such an agreement in 1990.

Today, I further propose that the ministers of the 23 Nato and Warsaw Pact nations take advantage of our February meeting in Ottawa, where we will launch the Open Skies negotiations, to review the status and give a further push to the Vienna Talks on Conventional Forces. . .

I . . invite Allied governments to consider establishing a Nato Arms Control Verification Staff. Verification will remain a national responsibility. But such a new Staff would be able to assist member governments in monitoring compliance with arms control and confidence building measures in Europe. . . It could provide a clearing-house for information contribnted by national governments, perhaps joining with collective European efforts through the Western European Union. . .

NATO's second new mission. Regional conflicts – along with the proliferation of missiles and nuclear, chemical and biological weapons – present growing dangers. Intensified Nato consultations on these issues can play an important role in forming common Western approaches to these various threats.

Third, Nato should also begin considering further initiatives the West might take, through the CSCE (Conference on Security and Co-operation in Europe) process in particular, to build economic and political ties with the East, to promote respect for human rights, to help build democratic institutions, and to fashion, consistent with Western security interests, a more open environment for East-West trade and investment. . .

The future development of the European Community will play a central role in shaping the New Europe. . .

The European experiment has succeeded...because it also held out the higher goal of political as well as economic barriers...of a Europe united...

We propose thet the United States and the European Community work together to achieve, whether in treaty or some other form, a significantly strengthened set of institutional and consultative links. . .

We suggest that our discussions about this idea proceed in parallel with Europe's efforts to achieve by 1992 a common internal market so that plans for US-EC interaction would evolve with changes in the Community. . .

As Czechoslovakia, Bulgaria and the German Democretic Republic undertake political and economic reforms comparable to those already under way in Poland and Hungary, we believe the activities of the Group of 24, centred round the EC, should be expanded to support peaceful change in these countries as well. . .

We need to offer the nations of the East hope, opportunities that can be seized as they take steps toward democracy and economic liberty. . .

Free elections should now become the highest priority in the CSCE process. . .We could involve parliamentarians more directly in CSCE processes, not only as observers as at present, but perhaps through their own meetings. . .

A new Europe, whole and free, must include arrangements that satisfy the aspirations of the German people and meet the legitimate concerns of Germany's neighbours. . .

As we adapt, as we update and expand our co-operation with each other and with the nations of the East, we will create a new Europe on the basis of a New Atlanticism. . .

At the same time the substantive overlap between Nato and European institutions will grow. This overlap must lead to synergy, not friction. . .

The CSCE process could become the most important forum of East-West co-operation.

As these changes proceed, as they overcome the division of Europe, so too will the divisions on Germany and Berlin be overcome in peace and freedom.

Bulgaria faces inflation and foreign debt crisis

By **Judy Dempsey** in Vienna

BULGARIA'S rate of inflation could run into three-digit figures unless a "sensible" relationship between prices and incomes is worked out. At the same time, unless radical economic measures are adopted, over half the country's annual hard currency receipts will be used to pay off the foreign debt.

This bleak picture of the economy, much worse than experts had expected, was yesterday revealed to the Bulgarian communist party central committee by Mr Petar Mladenov, the party leader.

He said that the country's debt exceeded $10bn, a sharp increase from the early 1980s when the debt totalled no more than $2bn.

Over the next six years, he added, the country will have to repay, on intereet alone, between $4bn and $4.5bn.

Mr Mladenov placed the blame sqnarely on former prime minister Mr Grisha Filipov, a staunch ally of Mr Todor Zhivkov, who was ousted from power last month; and on Mr Vasil Kolorov, President of the National Bank, Mr Stoyan Ovcharov, responsible for economy and planning and Mr Petko Danchev, a former deputy Prime Minister.

All four, along with 22 others, were expelled from the central committee last Friday.

Mr Mladenov gave no hint that the country would be seeking any form of stand-by credits from western banks. The country's hard currency reserves total $1.3bn and its loans due to be repaid by other countries to Bulgaria are worth about $1.5bn.

However, he did hint that the whole policy towards subsidies, which account for a quarter of the annual budget of 26bn leva, would have to be revised.

The plenum is expected to end today. Tomorrow, the National Assembly, which will endorse sweeping changes to the constitution, will meet.

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Managers in US optimistic on economic growth

By Anthony Harris in Washington

THE semi-annual forecast of the National Association of Purchasing Managers shows greater optimism about the US economy, especially about inflation, but much greater uncertainty about prospects for the coming year than for a long time.

The average forecast is for 3.4 per cent real growth and only 1.6 per cent inflation.

Both figures are much more optimistic than the consensus of economic forecasters, and indeed than the latest White House forecast of 2.6 per cent growth and slightly lower inflation, which is itself more buoyant than the consensus.

The purchasing managers expect an improved year by a four-to-one majority.

At the same time, however, 64 per cent express worries about 1990, including a possible fall in growth, or an outright recession, as well as high costs of health care and credit. This is the highest level of worry in 27 years, says the Association.

The managers base their optimism mainly on expectations of continued strong export growth. This again is more optimistic than the consensus, represented by the statement last week by Mr David Mulford, Treasury Under-Secretary, that further improvements in the trade balance may be very slow. The managers expect the dollar in be strong despite continued fall in interest rates.

They report that their companies are currently working at 85 per cent of capacity – historically a high level, but well below the 88.5 per cent reported a year ago.

● Department of Commerce figures yesterday showed some current weakness. October sales of merchant wholesalers were down 0.1 per cent from September and their inventories up 1.7 per cent from September, a sign that future orders will be cut. Housing completions in October fell 3.5 per cent from September and were 13.5 per cent below the rate for October 1988.

Treasury move on tax burden

By Peter Riddell

THE US Treasury aims to produce proposals by the middle of next year on how to eliminate the double taxation of corporate income.

Mr Kenneth Gideon, Assistant Treasury Secretary for tax policy, told a conference in Washington that the administration was "engaged in serious study" of ways to integrate the corporate tax system and planned to publish a study of possible options before mid-1990.

The Treasury has long opposed double taxation, whereby corporations pay tax on their earnings and then individuals pay tax on the dividends which they receive.

Options previously floated by the Treasury include a dividend-paid deduction for corporations and a dividend-received exclusion or credit for shareholders. The administration has favoured such a reduction in the over-taxation of equity rather than alternative proposals limiting the deductibility of interest in discourage leveraged buy-outs and similar takeovers.

Ending double taxation of corporate income is favoured in Congress by, amongst others, Senator Lloyd Bentsen, chairman of the tax-writing Senate Finance Committee.

Central American leaders hammer out accord

By Tim Coone in San José, Costa Rica

A STORMY presidential summit in Central America has ended in agreement on two important issues: to speed the demobilisation of the US-backed Contras based in Honduras and to issue an unequivocal statement of support for the beleaguered government of President Alfredo Cristiani in El Salvador.

For two and a half days the region's five presidents, from diverse ideological standpoints, wrangled over the wording of the final declaration. It was a virtual trade-off over the future of the Contras and the Farabundo Marti National Liberation Front (FMLN), El Salvador's guerrillas.

At one point, after 36 hours of talks, President José Azcona of Honduras stormed out of a late-night session. Only after a four-hour exchange of faxes and envoys between him in his hotel room and the other four presidents in the summit centre did he return and sign the agreement.

His walk-out nearly torpedoed the floundering peace process. The violent events of recent weeks and the danger of a spillover of the Nicaraguan and El Salvadorean conflicts had made a renewed regional commitment imperative.

The 13-point pact, signed at 3.30 am yesterday, pledges the presidents to sever the US aid lifeline to the Contras. It commits Nicaragua's left-wing government to back the right-wing government of President Cristiani in El Salvador.

Last month President Cristiani broke diplomatic relations with Nicaragua over the latter's logistical support for the left-wing guerrilla offensive to El Salvador. Both countries are urged to renew relations.

The FMLN is strongly condemned for its recent offensive which left an estimated 2,000 people dead and is "vehemently urged" to end hostilities immediately and to renew peace talks, in which the UN is called upon to assist.

The UN is also asked to accelerate the sending of observation units and to expand its role to active participation in demobilising the Contras. The Contras have rejected a compulsory demobilisation plan and so this accord could signify the possible use of military force by the UN troops, a request which needs approval by the UN Security Council. It is possible that the US could veto such a proposal, thereby scuttling one of the main benefits to Nicaragua of the summit agreement.

UN teams are also to take control of all donations to the Contras, which include US aid, and to direct them solely towards demobilisation and repatriation. Compliance with this depends on US co-operation and on effective measures by the Honduran Government to seal off the Contra camps and block non-UN aid.

Failure by Honduras to fulfil its commitments will result in a Nicaraguan damages claim going its course at the International Court of Justice in The Hague. On legal precedent a ruling is likely to go in Nicaragua's favour and damages could run into billions of dollars.

Congress set for clash with Bush over China

By Peter Riddell, US Editor, in Washington

THE Democratic-controlled US Congress is set for an early confrontation with President George Bush over his China policy after the visit of two of his top foreign policy advisers in Peking last weekend.

The visit, by Mr Brent Scowcroft, the President's National Security Adviser, and Mr Lawrence Eagleburger, the deputy Secretary of State, was intended to prevent the intal isolation of China. This has been the most controversial foreign policy action of Mr Bush's presidency as it is only just over six months since the massacre in Tiananmen Square in Peking which was ordered by the Chinese leadership.

The mission has been attacked by Democratic leaders and, in an unusual alliance, by the Washington Post, New York Times and Wall Street Journal, notably for sending the wrong signal to the Soviet Union about the suppression of dissent. Republicans have generally been guardedly supportive, though some have said the visit was ill-timed and, with typical frankness, Mr Jack Kemp, Housing Secretary, said on Monday that he was "troubled".

President Bush recently vetoed legislation granting Chinese students in the US permanent visas if they faced political persecution at home. He argued that this protection was offered by an executive order and that the bill interfered with his presidential prerogatives.

Senator George Mitchell, the Democratic Majority leader, has predicted that when Congress returns in January both houses will move swiftly to override Mr Bush's veto. This requires at least a two-thirds majority in both houses. Overriding the veto would make little practical difference in view of the President's actions but would have considerable symbolic importance for US attitudes towards Peking.

Similarly, Representative Stephen Solarz, Democratic chairman of the House Foreign Affairs sub-committee, has said he expects speedy congressional passage of a bill expanding trade sanctions against Peking.

While the Administration has insisted that sanctions have not been lifted, there were reports yesterday that several deals have gone through, notably the sale by Boeing of aircraft to China. Moreover, Chinese military officers and technicians have been allowed to return to the US in work on a $500m project to upgrade China's fleet of F8 fighters with US electronics.

The next decision will be whether Mr Bush approves final licences for three communications satellites to be launched on Chinese Long March rockets.

Brazil fears close finish to election

By Ivo Dawnay in Rio de Janeiro

CONCERN is growing in Brazil over the consequences of a close finish in the presidential elections next Sunday as the majority of voters in the big cities exude total confidence in a victory for Mr Luis Inacio Lula da Silva, the socialist candidate known as Lula.

Political analysts believe that the outcome is by no means clear, and that late-counted votes from the countryside could well tip the election in favour of Mr Fernando Collor de Mello, the centre-right front-runner.

This may only emerge, however, at the end of the count a full four days after Sunday's ballot boxes close. The first votes to be counted will undoubtedly show Lula well ahead in the metropolitan areas.

If, as is more than possible, a widespread conviction emerges that the will of the people has been denied by the conservative interior, the consequences could be explosive. It could also jeopardise Mr Collor's ability to act in his first days in office, prejudicing his ability to create an effective majority in Congress.

A poll due to be published by the Ibope organisation late last night was expected to show that the distance between the two candidates remained at seven percentage points – the equivalent of more than 5m votes.

This runs counter to findings by the Datafolha polling company which on Monday put the margin at just 3 per cent. But the atmosphere of left-wing triumphalism now permeating the downtown areas of São Paulo and Rio de Janeiro is already having its impact on cowed conservatives, with many dejected businessmen and politicians talking as if Lula, a former lathe operator, has won.

With artists and intellectuals solidly behind Lula, the atmosphere of poor versus rich has stormed the redoubts of Brazil's privileged classes.

In Ipanema, the richest neighbourhood of Rio de Janeiro, last weekend cars bearing Collor windscreen stickers were being jeered at by exuberant and often well-off supporters of Lula, the self-styled people's candidate.

The final outcome of the six-month campaign may hang on tomorrow's televised debate and its impact on Sunday's ballot. What some fear is that, in the current mood of high passion, a defeat for Lula might just prove the catalyst for violence.

Colombia in turmoil on extradition

By Sarita Kendall in Bogotá

THE Colombian Government, with only four days of congressional sessions left, is trying to patch together an agreement to prevent the inclusion of extradition for drug traffickers in a national referendum.

The Interior Minister warns that this would lead to a bloodbath, while a communiqué signed by "The Extraditables", a group of those who might be liable to extradition, congratulated the House of Representatives on its decision in submit extradition to a public vote. They said the drug war would stop if the Senate followed suit.

Last week's bus bomb, which killed more than 60 people at the security police headquarters in Medellín, and Congress's behaviour have left the country in political turmoil. The extradition clause was introduced by representatives at the last minute and forms part of a constitutional reform package awaiting Senate approval.

Liberal congressmen not only flouted orders from their party chiefs and the Liberal government of President Virgilio Barco but jeopardised the package, including a complex peace agreement with the M-19 guerrillas. El Tiempo, the leading Liberal daily in Bogotá, called the spectacle "grotesque" and said some representatives voted for fear, some for conviction and some for money.

The Senate has the unenviable task of finding n conciliatory formula which would, among other things, allow M-19 in give up its weapons and take part in the 1990 elections. One possibility is to dump two years' work on constitutional reform and push through a January referendum dealing only with M-19's electoral privileges.

Another referendum could be set for August – after the new President has taken office – with the implication that extradition would then be put to the country. But any changes made by the Senate will have to be sent back in the representatives for ratification and there is little time for debate. So far the Government has not even been able to find n Liberal party senator willing to present the reforms project.

More drastic proposals are also circulating: the postponement of elections, the closure of Congress and President Barco's resignation. The President has said that he will finish his term.

Argentina warned to expect high inflation

By Gary Mead in Buenos Aires

ARGENTINA's Economy Minister, Mr Nestor Rapanelli, has warned that Argentina is in for another spell of high monthly rates of inflation, following the Government'e decision to lift price controls and raise public sector tariffs.

In a broadcast speech on Monday night, the minister explained the Government's decision to devalue the austral by 34.8 per cent (from 650 australs to 1,000 to the US dollar). He attributed the failure of his team's ability to keep President Carlos Menem's July promise of no devaluation before 1991 to "numerous events of an extra-economic nature", including what he called Argentina's "parasitic and inflationary culture".

Yesterday in Buenos Aires black market dealers responded in the devaluation by trading at 1,200 australs to the dollar.

Tha Govarnment has announced further measures as part of the package announced on Sunday night, including the removal of price controls on 34 different products.

Prices of the remaining 15 basic food items still officially controlled have been raised by 25 to 175 per cent. The price of meat, not subject in government price controls, has risen by 40 per cent since last week.

Mr Rapanelli acknowledged widespread scepticism about the efficacy of the new measures.

Westland's Indian fleet is grounded after third crash

By David Housego in New Delhi

ALL BRITISH made Westland-30 helicopters in service in India were grounded yesterday after passengers refused to fly in them alleging they were unsafe.

The refusal came after a helicopter crashed on Monday – the third such crash involving a W30 in the last 18 months. The latest crash happened when the helicopter was still in the "hover" position about 10 ft above the ground after taking off from Juhu airport, near Bombay. The 11 passengers, employees of the Indian Oil and Natural Gas Commission (ONGC), and two crew members escaped – most with only minor injuries. The previous two crashes have involved loss of life.

The helicopters were supplied to India by Britain under a controversial aid package.

Wing Commander K.K. Saini, the Managing Director of Pawan Hans, the Indian group that operates the helicopters, said that the crash was due to a malfunctioning of the control system. The helicopter rolled to the left and then fell on grass – thus damaging its *under carriage and landing gear*.

Commander Saini said: "If this thing had happened in flight, there would have been nothing left of the helicopter." He said ONGC staff were refusing to travel in the W30 and "even the pilots are unhappy".

Of the 19 helicopters run by Hans Pawan, (including the one that crashed on Monday), 17 are involved in *offshore* work for ONGC and two are used by state governments in the north-east. Pawan Hans have recommended that these two be grounded as well.

ONGC confirmed yesterday that they "had stopped using Westland helicopters for the time being".

Commander Saini rejected criticisms that poor maintenance could be responsible for the crashes.

As compared with well under half of the 21 helicopters initally acquired from Westland that are still operational, three quarters of the 20 Dauphins acquired from Aerospatiale of France are deployed.

Mr Roy Moxam, Westland's operations director in India, said yesterday that experts *from the UK would be flying* out to help identify the exact cause of the crash. He said that Westland itself would not have recommended that the helicopters be grounded. "It is a loss of confidence in the aircraft that is the problem and that needs to be restored," he said.

The latest crash could provoke further inquiries into the circumstances surrounding the purchase of the helicopter from Britain – an acquisition opposed by Mr V.P. Singh, who was Finance Minister under Mr Rajiv Gandhi at the time and now is Prime Minister himself.

Riot police on standby after start of boat people airlift

By Michael Murray in Hong Kong

HONG KONG'S detention centres for Vietnamese boat people remained calm yesterday, as news seeped through to the inmates that the controversial forced repatriation programme had finally become a reality.

The authorities were taking no chances, given the outbreaks of violence that have flared so suddenly in the past in the overcrowded centres, and during the day extra riot police were positioned outside the camps which are dotted throughout the territory.

The news of the flight to Hanoi spread quickly among the Vietnamese via the radio and word of mouth, but met with a curiously muted reaction. Boat people at the Sham Shui Po open camp, who either arrived before screening was introduced or have been screened and hope to be resettled overseas, sympathised with their compatriots, some 40,000 of whom are likely to eventually face forced repatriation should they fail to volunteer to go home.

"The Vietnamese Government is no good for Vietnamese people," said one man in his mid-20s who hopes to be resettled in a third country some time next year. He said that most boat people had sold all their belongings in order to make the voyage to Hong Kong, but would return with nothing.

The Sham Shui Po centre is located in a busy urban area, and there is widespread animosity shown by the local population as the boat people move freely in and out of the camp. "Hong Kong people don't like Vietnamese people," he said.

This tension between the Cantonese and Vietnamese was underlined by a Hong Kong taxi driver on the way to the Whitehead closed camp. He summed up the prevalent attitude among the Hong Kong population, saying that it was good that forced repatriation *had begun*, and lamenting that with only 51 boat people gone, the process was going to be far too slow.

Arriving at Whitehead, in a rural and scenic part of the New Territories, the only sign that something was up was security men being extra diligent in challenging people approaching the camp perimeter. Beyond the fencing all was quiet, with Vietnamese inmates walking around and life going on as normal.

Before dawn the picture had been very different one at Phoenix House, the holding centre for the 51 who had failed to qualify as refugees either at the initial screening process or the appeal stage, and had been earmarked to be returned home as economic migrants. More than 100 prison officers and police with shields and helmets moved in on the dormitories at 3 am, far outnumbering the 26 children, 17 women and 8 men in the group to be repatriated.

The pre-dawn flight took off with a special exemption from the usual ban on night-time movements in and out of Kai Tak airport, which is in the midst of densely populated residential areas.

Looking tired and miserable, the boat people arrived in Hanoi two hours later with Vietnamese officials denying up to the last minute that they would accept anyone sent back against their will. They were whisked off to the Soc San reception centre in a walled compound with guards at the gate.

As late as Monday, Mr Nguyen Co Thach, the Vietnam Foreign Minister, said any plane bringing boat people back against their will would not be allowed to land.

In a statement yesterday, the Foreign Ministry in Hanoi said: "The use of force is against humanitarianism and will have unforeseen circumstancee. However, the Vietnamese side is always willing to conduct negotiations with countries concerned in search of a solution satisfactory to both sides and acceptable to world public opinion."

"Along these lines, Vietnam has conducted negotiations and reached agreement with the British Government and Hong Kong authorities with a view to stepping up voluntary repatriation and the acceptance of those who do not object to being repatriated."

Both the British Embassy and the local representative of the United Nations High Commissioner for Refugees (UNHCR) declined to comment on the repatriation

Robert van Leeuwen criticising the repatriation yesterday

However, back in Hong Kong, Mr Robert van Leeuwen, UNHCR bureau chief, criticised the haste of the forced repatriation.

The Hong Kong Government had, by 10 am, put out a statement confirming that the boat people had arrived in Hanoi, and saying that the move had gone smoothly and that no force was used. Most Hong Kong people had already seen the pictures on the morning television news, and the popular radio phone-in programmes were dominated by callers arguing over the morality of the exercise and pondering its likely effect upon Hong Kong's image overseas.

By 11 am the Cathay Pacific Tri-star was back in Hong Kong, having delivered its human cargo to Vietnam. But as the taxi driver remarked, the day's work had not made much of a dent in the colony's Vietnamese population. Fifty-one down, 40,000 to go.

S Africa to keep dual currency system

By Jim Jones in Johannesburg

SOUTH AFRICA is unlikely to scrap its dual currency system of exchange controls within the next 12 months according to Mr Chris Stals, the governor of the South African Reserve Bank.

A merger of the commercial and financial rands has been rumoured for several weeks in Johannesburg. Many foreign exchange dealers believe the monetary authorities are attracted by the prospect that a reintroduction of a unitary currency could result in a resumption of capital flows into South Africa.

However, after announcing a tightening of the administration of exchange controls in Pretoria yesterday, Mr Stals said it was unlikely the financial and commercial rands would be merged until the country's foreign reserves reached a satisfactory level, and until the financial rand's discount to the commercial rand narrowed from its present 30 per cent or so. It was also unlikely as long as the political situation remained uncertain.

At present one US dollar will buy about 2.60 commercial rands and 3.89 financial rands.

Although the commercial rand's external worth has stabilised in recent weeks the financial rand's lesser value continues to make exchange control contraventions attractive.

The dual currency system was re-introduced in September 1985 to stem a haemorrhage of capital and to prevent disinvestment becoming a drain on exchange reserves.

At present the bank is investigating about 140 cases of exchange control contraventions involving illegal round tripping between the commercial and financial rands.

Tighter administration is designed to place greater responsibility for managing exchange control on the country's commercial banks and to penalise banks which are lax.

Anti-inflationary policies have led to slower rates of economic growth and domestic expenditure. By this year's third quarter, austerity measures had cut GDP growth to an annualised rate of 1 per cent against 3.5 per cent in 1988.

Army mutineers purged in the Philippines

THE Philippines is revamping its army to try to prevent more coup attempts against President Corazon Aquino, sacking a general and an intelligence chief and scattering mutinous soldiers to units around the country, Reuter reports from Manila.

The Army chief, Major-General Manuel Cacanando, relieved 14 other officers of command and proposed disbanding the Scout Rangers, an elite unit which contributed many of the troops who tried to topple Mrs Aquino earlier this month.

In a parallel move, Congress put final touches to an emergency act which would give Mrs Aquino broader police powers. Most of the estimated 3,000 mutineers who took part in the sixth and bloodiest revolt against her – in which 119 people were killed and 600 wounded – came from the army.

Gen Cacanando relieved Brigadier-General Marcelo Blando as army division commander and Colonel Cesar Elano as chief of the army intelligence security group. Gen Blando headed a rebel unit in the coup attempt, while Col Elano was accused of poor intelligence work which allowed the mutineers to seize part of army headquarters.

Gen Cacanando said Mrs Aquino approved his move to reassign hundreds of rebellious commandos of the 2,500-strong Scout Rangers to other units for retraining.

"They will have to undergo some schooling. They don't know what democracy is all about," Gen Cacanando told reporters. "Sometimes the boys get too aggressive, wanting immediate reforms."

The rebels accused Mrs Aquino and other civilian leaders of mismanagement and failing to solve basic problems, such as rising prices and breakdowns in public services.

Decade of despair for the world's unwanted refugees

By Mark Nicholson

FORCED repatriation of Vietnamese from Hong Kong's camps would, if as many as 40,000 are declared ineligible for refugee status, be the largest case in recent years of a one-off return of people whose application for asylum had been considered and refused.

There have been numerous larger single mass expulsions of nationals, though these have generally not been of refugees, which the UN defines as those with a well founded fear of persecution on grounds of race, religion, nationality, membership of a social group or political opinion.

There have also been comparable numbers of asylum seekers turned away or deported from particular countries, but such returns have mostly been of trickles of refugees over a protracted period.

Nigeria made the most spectacular mass expulsions of the decade when separately in 1983 and 1985 they ejected at short notice a total of 3m migrant workers, mostly from Ghana, Niger, Cameroon, Chad and Benin.

Most of these workers had been drawn to find work in Nigeria during the country's oil boom of the 1970s, when the need for unskilled workers led the authorities to turn a blind eye to the immigration laws. When oil revenues collapsed in the 1980s, however, the migrant workers were blamed for much of the economic downturn and told to leave.

Africa's recent history is, indeed, littered with parallel expulsions. Libya in 1985, for instance offered economic reasons for the expulsion of 60,000 Tunisian and Egyptian migrant workers. Uganda also forced some 50,000 Rwandans to return in 1983. Here, however, the expulsions derived rather from an economically expedient tightening of immigration regulations, often hastened by political differences, than from the rejection of asylum seeking refugees.

One similar African case to that of the Hong Kong repatriation was that of Djibouti's forcible repatriation in 1984-85 of thousands of Ethiopian refugees driven north by the great famine, though numbers were well short of the total today encamped on the UK colony.

In most cases, refused asylum seekers have been turned away in great numbers only in small batches over long periods. The US Committee for Refugees, for instance, estimates that some 18,250 Haitians have been interdicted at sea since a programme of interception was begun in 1981. Likewise, the committee says the US last year returned 14,232 refugees from El Salvador at the Mexican border and 9,780 the preceding year.

South Africa is likewise known to have turned back at its borders thousands of the million or so Mozambican refugees who have fled civil war.

In South East Asia, Thailand has also raised the threat of forcibly repatriating an estimated 300,000 Cambodians within its borders, but it is not yet clear that these are all truly refugees, nor that any forced returns at all have actually been carried out.

Ethiopian relief route to reopen for the starving

By Michael Holman, Africa Editor

PRESIDENT Daniel arap Moi of Kenya said yesterday that Ethiopia had agreed to open safe passage corridors in order to allow food to reach up to 4m people facing starvation in the provinces of Tigray, Eritrea, Gonder and Wollo.

About half the people in need, hit by a combination of war and drought, live behind rebel lines.

Mr Moi, speaking at a rally in Nairobi marking Kenya's 26th anniversary of independence, said he had also asked the rebel Eritrean Peoples Liberation Front (EPLF), and the Tigray People's Liberation Front (TPLF), to take part in the agreement.

If the President's announcement proves correct, it means that the widespread starvation which is otherwise imminent can be averted.

Although all the 600,000 tonnes of food urgently needed has not yet been pledged, and more lorries are required, relief agencies have said that the war in the two provinces is the single greatest obstacle to their operations.

Food convoys have to make the long journey from neighbouring Sudan, under the cover of night, rather than travel by day from Ethiopia's Red Sea ports of Messawa and Assab.

London spokesmen for the Eritrean and Tigrayan rebels expressed considerable scepticism last night, while British aid agencies involved in the relief operation could not confirm Mr Moi's announcement.

Japan's rich lottery punters queue for the ticket to their dreams

By Robert Thomson in Tokyo

EACH DAY last week, thousands of Japanese queued patiently outside the fashionable stores of the Ginza, where the wealth of modern Japan is on display, with the humble aim of buying a lottery ticket.

Queuing began as early as 4 am, and the long lines lasted all day. But the punters reckon that the wait is a fair price for the opportunity to buy a ticket from a "lucky" lottery shop. The lottery, the "Year-End Jumbo", is the most lucrative held in Japan, and the Government estimates that five Y300 ($2.06) tickets will be sold for each person in the country.

Dai-Ichi Kangyo Bank, the world's largest, oversees the ticket selling, and Mr Toru Segawa, a bank official responsible for lotteries, said that the record interest in this draw, in which the first prize could be Y100m, shows that Japanese "are still not rich".

But Mr Segawa said that winners most often buy tickets not for the money, but for the opportunity of "having a dream" before the draw on the last day of December. A survey by the bank of 2,261 prize winners in last year's three largest lotteries found that 76 per cent bought the ticket "to dream", while 12 per cent considered that they were gambling, and 7 per cent said that advertising or the design of the tickets prompted them to buy.

The importance of ticket design is not to be taken lightly. Mr Segawa said that there is a club of lottery ticket collectors and a secondary market for the more sought after designs from the state-run lotteries, which were launched in the dying days of the war in 1945 to raise money for the military effort.

A Japanese woman told of her elderly mother buying tickets for the "dream value", but never expecting to win: "If she won, she would feel ashamed because she did not work to earn the money." Not all Japanese are as self-effacing, and the publicity campaign for the "Year-End Jumbo" has, for the first time, targeted what the Japanese literally call "OLs", "Office Ladies", single women who have developed a taste for consumerism and department store credit.

Part of Mr Segawa's job is to meet the winners, and all, he says, have been unassuming: "They are not like some foreigners. They don't want to be rich or buy an expensive car. They don't really want to change their lives." Most refuse to be identified partly because they don't want to be bothered for donations".

The survey of prize winners showed that 34 per cent simply "save" the money, 10 per cent plan to pay back a loan, 7 per cent use the winnings as a deposit on real estate and 4 per cent renovate their house. Only 2 per cent said the money would be or had been used for "leisure activities".

Interest in large lotteries, as measured by ticket sales, has risen sharply in the last four years, and the Government has approved three "jumbo" lotteries per year, with a "Dream Jumbo" in May, a "Summer Jumbo" in August, and the "Year End Jumbo", the most lucrative of them all.

About 45 per cent of the lottery proceeds go to prizes, about 14 per cent to running costs and commissions for sellers and the Dai-Ichi Kangyo Bank, while the rest is given to local governments.

Kibbutz debt write-off agreed by Israeli banks

By Hugh Carnegy and Efrat Shvily in Jerusalem

THE Israeli Government and leading banks yesterday finally concluded an agreement with the country's kibbutz movements, writing off or rescheduling the bulk of their Shekels 6.7bn ($3.3bn) debts in an unprecedented deal aimed at saving the famous rural collectives from collapse.

Under the arrangement, thrashed out over months of negotiation, the banks agreed to write off Shk 1bn (much has already been set aside in their 1988 bad debt provisions) and the Government will write off Shk 650m.

A further Shk 3.5bn owed to the banks is to be rescheduled over 25 years and the 270 kibbutzim themselves will raise Shk 750m from their own resources and by assets sales. The rescheduled portion will, in effect, be subsidised by the Government which will provide the funds at little more than cost price

Mr Shimon Peres, the Finance Minister and leader of the Labour party, said the kibbutz agreement – originally outlined in February but delayed by arguments over the terms – was the biggest of its kind ever signed in Israel. "The thinking behind it is a value judgement, not a purely commercial one. Israel without (the kibbutz movement) would be a different Israel," he said.

The kibbutzim, which account for 3 per cent of the population, were an integral part of the Labour Zionist movement which dominated the early economic and political development of the state. They are still closely allied to the Labour party.

Over the years, their original strict communistic ideology and their role in the economy have changed. Although, they still account for one third of Israel's agricultural output, two thirds of their own output comes from more recently developed kibbutz industries.

Some kibbutzniks fear some kibbutzim will not survive, despite the debt deal. Harsh conditions attached by the banks to yesterday's agreement, including efficiency targets, a freeze on living standards and changes in employmant structures, are also likely further to erode their collective ideology.

Unicef blames arms and debt for deaths

By Mark Nicholson

SPENDING by developing countries on arms and debt service will on present trends lead to the death and starvation of 100m children in the 1990s, according to a report published yesterday by the United Nations Children's Fund (Unicef).

The 100-page report claims, however, that most child deaths in developing countries caused by disease and malnutrition might be prevented if aid spending on health and immunisation programmes was raised by £2.5bn ($4m) a year for the rest of the decade.

The report says that progress in solving the debt crisis and diversion of 5 to 10 per cent of arms spending to development in Third World countries would suffice to eradicate absolute poverty in 10 years.

Nearly 8,000 children die each day through lack of immunisation, 7,600 through malnutrition and 6,000 from pneumonia, says the report. Measles, dehydration, pneumonia, tetanus and whooping cough account for most child deaths in developing countries.

More positively, the report saya immunisation programmes today cover 70 per cent of the world's children, against 10 per cent in 1980, saving an estimated 2m lives a year, and that oral rehydration therapies, now used by one family in three in developing countries, have saved a further million children a year.

The report also says that health spending per head has fallen in three quarters of African and Latin American nations and that infant mortality rates have begun to rise in some of these countries. It also shows that the total number of children not enrolled in primary school in developing countries is rising for the first time this decade.

Mr Richard Jolly, Unicef executive director, said these trends are linked to the squeeze on spending forced by high debt-service payments.

The State of the World's Children; Oxford University Press, £3.50

Li charge dropped

Hong Kong authorities yesterday said they had decided not to proceed with one of three bribery charges against Mr Ronald Li, former chairman of the Hong Kong Stock Exchange, John Elliott writes from Hong Kong.

Disarming approach by V.P. Singh calms Punjab gunmen

K.K. Sharma analyses the Indian Prime Minister's efforts to channel Sikh militancy down the constitutional path

THE spontaneonsly raptnrous welcome given to Mr V.P. Singh, India's Prime Minister, last week when be visited Amritsar to offer prayers at the Golden Temple, the Sikhs' holiest shrine, was as mucb a signal to the militants as it was to the new Indian Government.

Once again, Punjahis demonstrated that they want not only peace but a new beginning and an end to the killings in the state, both by the radicals and tbe security forces. Mr Singh's promise of a "healing touch" suggests that he wants to change the Government's policies of using force to neutralise the extremists.

Instead, he plans to revive political institutions and methods to find a formula for the long-standing demands and grievances of the Sikhs. He has promised to make a beginning by calling an all-party conference on Punjab this week.

Yet the euphoria created by Mr Singh's visit to Amritsar needs to be qualified by the hard realities in Punjab, wbere the militants continue to use violent methods for their demand for an independent nation they call Khalistan. The demand for Khalistan may not have wide support, as Mr Singh's visit to Amritsar showed.

But it continues to reflect the Sikhs' grievances and anger over the attack on the Golden Temple by the Indian Army in 1984, the killings of 3,000 Sikhs in Delhi and northern India after Mrs Gandhi's assassination, and the failure to take action against the guilty.

These issues, reflected in a controversial resolution for a high degree of autonomy adopted by Sikhs at the historic Anandpur Sahib temple more than a decade ago, have troubled the Sikhs for years. They are not amenable to an easy solution, as the failure of Mr Rajiv Gandhi's efforts to settle the Punjab issues showed.

Mr Singh has made a brisk start towarde tackling them and his Amritsar visit and statements there bsve raised bopes that a breakthrough is imminent. It is important that Mr Singh does not let the momentum slow down. But, in his searcb for a solution, he will have to take into account the fact that the militsnts have not diluted their extreme positions.

The gun-wielding "boys" in Punjab declared a short truce to allow general elections to be held in the state but killings and violence have been resumed. This suggests that the militants' leaders – including the powerful underground five-member Panthic (religious) committee – have resumed their struggle on the violent pattern of the last few years.

The strongest faction of the leading Sikh party, the Akali Dal, has demanded the creation of an "autonomous Sikh region" formed by Punjah and Punjabi-speaking areas in adjacent states in northern India, writes K.K. Sharma in New Delhi.

The faction, led by the radical leader, Mr Simranjit Singh Mann, also wants a "self-determined internal constitution" for the region. The demands, agreed by party leaders at a meeting in Amritsar, seek a status for Punjab that is just short of an independent Khalistan, demanded by militant Sikhs. Some followers of Mr Mann walked out in protest at the failure to demand Khalistan.

Serious differences on basic issues hava thus already emerged in the newly-formed faction.

The hard stance taken by leaders of various factions of the influential All India Sikh Students' Federation, some of whom openly deciare their demand for Khalistan, is also an indication of the mood of the militants. Much now depends on Mr Simranjit Singh Mann, the former police officer just freed after five years in prison. Having just been elected with a massive majority to Parliament with eight of his supporters, Mr Mann now beads the Sikhs' main political party after having marginalised established leaders

The Indian Governmant has already established links with Mr Mann, even though be pointedly stayed away from Amritsar during Mr V.P. Singh's visit. The Prime Minister's emissaries say that, despite the long imprisonment and solitary confinement and physical torture that he went through, Mr Mann is remarkably free of bitterness.

Mr Mann has spoksn angrily about the failure to deal with Sikh demands and grievances but so far he has resisted pressures from other militants to take an extreme position on the future of Punjab. Indeed, he has spoken of the need for a solution within the framework of the Indian Constitution, thereby implicitly rejecting secession.

However, Mr Mann has still to establisb himself as a political leader. While in prison, he became a symbol of Sikh grievances and suffering and has emerged as a martyr in his own lifetime. His victory in parliamentary elections is a reflection of the mood of the people.

In trying to consolidate his position, Mr Mann will have to carry the militants with him. This is by no means easy. Before he begins a dialogue with the Indian Government, or even takes his oath as an MP, Mr Mann will have to get the consent of various groups. These include such radicals as the Panthic committee, Damdami Taksal (the militant seminary to which the late Sant Jarnail Singh Bhindranwale belonged – he was killed in the 1984 army action on the Golden Temple and his spirit and statements now guide the militants) as well as factions of the All India Sikh Students' Federation and various "commando" groups now wielding AK-47s and other lethal weapons.

They will determine whether Mr V.P. Singh's visit to Amritsar is an acceptable act of atonement and an apology to the Sikhs that they insist upon, notably for the assault on the Golden Temple.

Fortunately for Mr Mann, the extremists still in the open like the late Sant Bhindranwale's father, have accepted him as their leader. Having neutralised the established and quarrelling Sikh leaders, Mr Mann is in a position to take command provided he can carry various underground groups with him.

This is full of difficulties. To do so, he must reconcile extreme positions of militants who demand Khalistan with those who want a return to negotiations to find a formula within the Indian Constitution.

Getting a consensus among the militant, often warring, groups has been impossible so far.

Mr Mann has many factors working in his favour, including his own suffering, and he could emerge as the accepted leader of the Sikhs if he plays his cards carefully.

But the complexity of the moves that this involves, both in his dealings with the militant groups as well as with the Government, inevitably makes progress on Punjab a slow process.

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Japan moves on chip market access

By Robert Thomson in Tokyo

THE Electronic Industries Association of Japan (EIAJ) yesterday announced a 10-point programme designed to increase foreign penetration of the local semiconductor market and to deflect US criticism of market access for its producers.

While there was little new in the proposals, which encourage closer relations between US and Japanese companies, Mr Akio Tanii, EIAJ chairman and president of Matsushita Electric Industrial, said "a further major effort is required" by the US and Japan if disputes over semiconductors are to be settled.

The two countries signed the US-Japan Semicondnctor Arrangement in 1986, which, according to US officials, is supposed to have set a 20 per cent target for foreign share of the Japanese market by 1991, although Japanese officials deny that such a target was set.

The association estimates that foreign share of the market has risen from 8.6 per cent to 12 per cent since 1986, and US companies, represented by the Semiconductor Industry Association (SIA), have recognised that genuine attempts are being made by the Japanese Government and companies to increase foreign penetration.

Mr Tanii said the EIAJ recognised that while larger US companies had done better in the Japanese market, smaller and medium-sized ones had yet to make much impact, and the programme announced yesterday would assist those companies. He said that the association would act as a go-between for US suppliers and Japanese purchasers, but that the ultimate selling responsibility rested with US companies.

Two of the 10 points deal with measures to be taken hy Japanese companies, whila eight are suggestions for foreign companies to increase their sales. Japanese companies are encouraged to release more detailed information about their semiconductor needs and to include foreign suppliers in the designing of new products to ensure that imported semiconductors are suitable.

Foreign companies are encouraged to share facilities to "gain access to Japanese manufacturing technologies without being required to make large investments," and to form "technical alliances" for the development of new prodncts. An agreement between Texas Instruments and Hitachi to develop sophisticated chips is cited as an example of a successful technical alliance.

The proposals have already been presented to the SIA, but no formal response has been received. However, an EIAJ official said that "we have had a tentatively favourable reaction."

Australian protectionism lingers on

William Dullforce on Gatt's first national trade policy assessment

AUSTRALIA has "bound" fewer of its tariffs than other developed countries and will contiune to provide a high level of trade protection for some industries, even after the completion of its current liberalisation programme in 1995, the General Agreement of Tariffs and Trade reported yesterday.

These disclosures came in the first assessment of a national trade policy effected by the Gatt secretariat under the new Trade Policy Review Mechanism (TPRM) put in place by trade ministers last April.

TPRM's objectives are to reinforce Gatt's role as the policeman of the world trading system and to improve governments' adherence to Gatt rules by shedding greater light on *their current practices*.

Australia's recent efforts to open its markets and to expose its industries to greater competition emerge clearly from the secretariat's 175-page report. But in the Gatt council yesterday delegates focused on its unusually low level of bound tariffs. Under Gatt rules a country "binds" a tariff by guaranteeing not to raise it again.

Only about one quarter of imports enter Australia at bound rates; the proportion of bindings on industrial products is particularly low. Other developed countries have bound nearly all their tariffs. The Australian government says that it will bind more duties if it gets what it wants from the negotiations on farm trade reform in the Uruguay Round.

Australia took the lead in forming the Cairns Group of 14 agricultural exporting countries, which has become the third big player alongside the US and the European Community in the farm talks.

Australia says it will bind more duties if it gets what it wants from the farm trade reform talks in the Uruguay Round

Mr Roderick Hall, bead of Australia's multilateral trade division, said that in earlier Gatt rounds it had been impossible for Australia, 75 per cent of whose exports are commodities, to secure barrier-free access to import markets for its farm products.

Unlike other countries Australia imposed few quantitative restrictions or other non-tariff obstacles to imports. Its only bargaining leverage was in its tariffs. Moreover, a phased reduction programme had been launched, which would lower the average tariff to 5.5 per cent by 1992, some 30 per cent below its 1986-87 level.

Bnt, the Gatt secretariat pointed out, industries such as car manufacturing, textiles, clothing, footwear, dairy and tobacco, continue to receive substantial government assistance, through tariff qnotas, offsets, local content schemes and special sectoral plans, as well as hy relatively high tariff walls. The government's new approach emphasised adjustment rather than shelter from competition.

But, the secretariat insisted, these industries would still be highly protected in the mid-1990s. Given that Australia is an important agricultural exporter, one of the Gatt secretariat's more surprising findings is that domestic pricing arrangements provide relatively high rates of assistance to dairy products.

Another blemish on Australia's faithfulness to Gatt principles is the 20 per cent preference granted to local and New Zealand suppliers under its government procurement system.

Canberra says the preference will soon be replaced with new guidelines for public purchases but Australian membership of the Gatt procurement code and other codes "will be influenced by the extent to which our wider objectives for the (Uruguay) Round as a whole are met."

Australia has not signed Gatt's standards code and widespread differences exist in health and safety standards among the Federal states, which have constitutional authority in applying most standards. Canberra and the state governments have agreed in principle to negotiate a national standards agreement. The secretariat recognised that Australia "has gone a long way" towards reversing its traditional policy of promoting development through high levels of assistance for its industries.

The government bravely launched its liberalisation programme in May, 1988 against a background of high budget deficits. In its separate report to the Gatt council the Australian government said it was conscious that there were areas of its trade and industry policies that would generate criticism. But, while it had been true not many years ago that manufacturing benefited from a high level of protection, the situation had changed rapidly.

By the next TPRM review – which could be in four years time under present plans – Australia would have "average levels of protection across all sectors comparable with other developed economies".

UK plan to restructure soft loans programme

By Peter Montagnon, World Trade Editor

BRITAIN is to restructure its soft loan programme for developing countries to create greater flexibility and prevent the Exchequer facing a ballooning of long-term obligations as more bnsiness is added to the books.

The changes follow a government review of the programme which started earlier this year and is now complete. Traditionally a supporter of grants, the UK was always reluctant to provide soft loans which carry a permanent interest rate subsidy. It only started doing so in 1986.

The Overseas Development Administration says the review has decided to continue with the soft loan programme beyond its previously scheduled expiry date of March 1991, but to amend its operation so that subsidy payments are made only during the drawdown period of the loan.

It will then be up to the arranging banks to use this money to structure the deal so that a lower interest rate is achieved throughout the life of the loan. The scheme will help the Government control spending on this form of aid and trade support because the budgetary outlay will follow close after a support decision rather than being spread out over many years.

This means that it will no longer be necessary to have separate allocations for soft loans and grants in the budget for mixed credits. There will be greater choice in tailoring financial arrangements to individual cases.

The Overseas Development Administration is to hold talks with the banks about the detailed operation of the scheme in the new year.

The revised scheme itself will not enter force until 1991 and does not affect existing soft loan arrangements for China and Indonesia.

ODA has also announced the signature of a £6.6m grant for the Karachi water supply project. This is the first project to he financed under the UK's co-financing arrangement with the World Bank.

CDC tests water in bid to sell mainframes to Moscow

By Alan Cane in London

CONTROL Data Corporation (CDC), the struggling US computer manufacturer, hopes to sell several large mainframe systems to the Soviet Union in a $32m deal which will provide an early test of the Bush Administration's commitment to a more relaxed approach to sales of strategic equipment to Moscow.

The deal will have to be approved both by the US Department of Commerce and by CoCom, the multinational organisation which monitors and catalogues goods which may freely be sold to Soviet bloc countries.

If approved, it will be the first such deal since the US trade freeze following the Soviet invasion of Afghanistan. Furthermore, the machines are substantially more powerful than any on CoCom's approved list.

Control Data believes that approval will ba granted because the machines are to be used by Soviet nuclear engineers to improve the safety of nuclear power plants.

Since the Chernobyl disaster, the world's nuclear scientists have been looking for ways to help the Soviet Union improve the safety of its nuclear power industry, which has more than 50 plants in operation.

Mr James Ousley, president of Control Data's computer products group said the deal supported President Bush's desire to work with the Soviet Union to address common environmental concerns. It also supported the objectives of the post-Chernobyl 1988 US-USSR memorandum of cooperation in civilian nuclear reactor safety.

The six CDC "Cyber 962" systems, each about as powerful as a medium sized commercial mainframe, have been ordered by the Soviet Research and Development Institute of Power Engineering (RDIPE).

The plan is to use them to run safety analysis software of both Soviet and Western origin. The Soviet Union will obtain Western software from the Vienna-based International Atomic Energy Agency. Publicly available US computer programs will also be adapted for Soviet use.

Soviet engineers intend to use the hardware and software to improve their models of plant behaviour and perform more accurate analysis.

CDC said yesterday that it has applied for licences to export the computers but it did not expect a formal reply before the spring. If approval was given, the computers could be installed by the middle of the summer. The contract with the Soviet Union called for end-user safeguards and government-to-government assurances that the computers would be used only for safety analysis of civilian nuclear reactions.

In addition, the computers would be maintained on-site by CDC technicians. Professor Eugene Adamov of the RDIPE said yesterday that while the Soviet Union had its own mainframe computer industry, the CDC machines were especially well suited to running nuclear safety programs.

The order, if allowed to proceed, should boost CDC's slow fight back to financial stability and health. The Minneapolis-based company showed a small profit in its third quarter this year, but was still showing a $484m loss for the first nine months.

The company has recently undergone substantial reorganisation in its quest for profitability including the sale of its finance business and disk drive operation together with the abandonment of its efforts to stay in the supercomputer business.

Green issues pose dilemmas for pulp and paper industry

By Maggie Urry

THE question of how the world pulp and paper industry should react to environmental issues was an important theme throughout the first day of the Financial Times World Pulp and Paper Conference which opened in London yesterday.

Chaired by Mr John Werlidge, formerly the chairman and chief executive of Wiggins Teape, the first day covered the issues of the internationalisation of the industry, the outlook for pulp, joint ventures with Eastern Europe, and project development in the Third World.

Nearly every speaker touched on the subject of the environment, which is now at the forefront of many pulp and paper-makers' thinking.

Mr Adam Zimmerman, chairman of Noranda Forest, summed up many people's concerns by saying that environmental groups had focused on chemicals such as dioxins, which appeared to be harmful in large quantities but which were produced in tiny quantities by the pulp industry. He said "to eliminate these minute amounts is going to take monumental amounts of capital."

Mr Rune Brandinger, chief executive officer of Södra Skogsägarna, said the cost of bleaching sulphate pulp to the accepted brightness rose sharply as the controls on emissions tightened. He suggested that for some applications less bright pulp may have to become acceptable.

Another aspect of environmental concern is the increasing use of recycled fibre, from waste paper, in making paper. Mr Bo Wergens, director general of the Swedish Pulp and Paper Association, said: "As time goes on, waste paper will play an increasingly important role as a source of fibre raw material."

Mr Wergens commented on the growing shortage of fibre in Western Europe. Other speakers said this was being compensated for by the new plantations in areas such as Brazil, Chile and Argentina, as well as South Australia and New Zealand.

Mr Pentti Salmi, chairman and chief executive officer of Enso-Gutzeit, the Finnish pulp and paper group, discussed his company's two joint ventures with the Soviet Union. One is a forest management business in Soviet Karelia, not far from the Finnish border, in which Enso has a 49 per cent equity stake.

His company had gone into the joint venture after seeking new sources of hardwood pulp. Enso found what it needed in the birch forests of Karelia. This company will export birch pulpwood to the other joint

FT CONFERENCE WORLD PULP AND PAPER

venture business, a pulp mill in Finland.

The mill will be 20 per cent owned by the Soviet Union which is investing £35m of the £180m equity capital. It is an extension of an existing mill, and will buy the birchwood pulp from Soviet Karelia at the world market price, for hard currency. The pulp mill will then sell 100,000 tonnes of chemical pulp each year to the Soviet Union, again at market prices, in hard currency.

Mr Salmi said that although frustrating at times, Enso's experiences of dealing with the Soviet Union had so far proved largely favourable.

Mr Friedrich Lahde, technical manager of the agriculture and forest products division of the International Finance Corporation, an affiliate of the World Bank, said the IFC had had some success in providing project finance for pulp and paper developments in the Third World.

He had learnt that although in developed countries pulp and paper-makers concentrated on advanced technology and economies of scale, these did not always apply in developing countries where there might not be a skilled workforce to cope with high technology or with large mills.

A number of speakers agreed that the trend in the industry towards internationalisation was continuing. Mr Hans de Karver, president of Cepac, the European Confederation of Paperboard and Pulp Industries, and vice-chairman of KNP, predicted a concentration of companies within Europe, which are small compared to the giants of North America and Japan.

He suggested that in five to 10 years there could be 10 big conglomerates in Europe, each with a turnover of around Ecu5bn ($5.68bn). This would have to come about through mergers and acquisitions.

However, he said acquisition prices for companies within Europe made healthy returns on investment difficult.

Mr Carl Björnberg, managing director of Myllykoski, a Finnish group, said that four companies in Finland have 60 per cent of the forest product market. Companies within the European single market after 1992 would have a competitive advantage.

Ms Irene Meister, vice president of the American Paper Institute, said that the internationalisation of the industry would make it more rather than less competitive. Smaller companies would have to adopt a "niche" strategy.

Mr Jean-Paul Franiatte, managing director of Copacel, the French industry confederation, said that French companies had taken advantage of the last six years of strong market conditions to redefine their strategy to face international competition.

UK yards seek Malay order for warships

By David White, *Defence Correspondent*

TWO BRITISH shipyards are understood to be competing against each other for a contract worth between £150m and £200m to supply two fully-armed warships to Malaysia.

Both the Tyneside yard Swan Hunter and Yarrow, Glasgow-based subsidiary of the GEC group, are known to be bidding for the deal, which might be extended to cover further warships under licence with local constructors.

The negotiations are a previously unrevealed facet of the £1bn outline arms agreement signed more than a year ago by Mrs Margaret Thatcher and Dr Mahathir Mohamad, the Malaysian Prime Minister.

Specific contracts for the proposed arms supplies, which include Anglo-German-Italian Tornado aircraft, have so far failed to materialise.

The proposed purchase of two corvettes of about 1,500 tonnes would be covered by a reference in the original agreement to "enhancement" of Malaysia's maritime capacities in its exclusive economic zone.

The vessels, carrying anti-submarine helicopters, would be equipped with Sting Ray lightweight torpedoes, towed-array sonar and the latest Vertical-Launch Sea Wolf surface-to-air missiles, developed by British Aerospace and GEC-Marconi.

The UK-Malaysia package arms deal is also expected to include at least eight Tornados from British Aerospace, air-defence radars from GEC-Marconi, portable Javelin missiles from Short Brothers, towed howitzers from VSEL and light guns from BAe's Royal Ordnance subsidiary.

BAe has also been hoping to include Rapier air defence missiles in the deal.

Detailed negotiations were launched in April after initial delays caused by a wrangle over Malaysian Airline System's landing rights at London's Heathrow Airport.

The agreement includes training, and is to be paid for partly in oil and other natural products.

The warship negotiations follow an agreement for the supply to Brunei of three offshore patrol boats from Vosper Thornycroft of Southampton, part of a £250m arms deal.

Vosper said it was not contending for the Malaysian contract.

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Numbers of shareholders estimated at 12m

Biggest share ownership growth since 1987 crash

By Jimmy Burns

BRITAIN is witnessing the biggest expansion in individual share ownership since before the 1987 crash, the Stock Exchange said last night.

Following the Abbey National issue this summer but before the water flotation, the number of Britons owning shares is estimated at between 11.5m and 12m.

Earlier this year the Stock Exchange estimated that the number of shareholders since the 1987 crash had remained more or less static at around 9m shareholders equivalent to about 20 per cent of the population.

Separate figures released yesterday by the Office of Population Censuses and Surveys show that the number of shareholders in the UK trebled in the three years following the Government's first major privatisation – British Telecom – in 1984.

The OPCS's General Household Survey shows that the proportion of Britons owning shares increased from 7 per cent in 1984 to 21 per cent of the population in 1987.

The bulk of the fieldwork was carried out by OPCS before the crash of October 1987 which brought to a sudden halt 13 years of bull markets.

Both the level and nature of share ownership over the last three years indicates that the new generation of shareholders who have taken advantage of Government policy have continued to hold the shares they have acquired despite the crash of 1987 and the subsequent market uncertainties.

A survey published by the Stock Exchange in March estimated that 6m Britons owned shares in privatisation issues, while 1.5m owned shares in the companies for which they worked.

The percentage of people owning shares in only one company was put at 56 per cent. The figure had remained static since 1987 in spite of the Government's efforts following the stock market crash to encourage first-time shareholders to take continuing interest in the equity market and to acquire shares in a greater number of companies.

The General Household Survey published yesterday provides the most detailed assessment of the kind of Briton who buys shares.

According to this survey, the typical British shareholder is male, middle-aged, has a job, is wealthy and owns his own house in the south-east although the Government has insisted that stereotype is giving way to more popular capitalism both as a result of privatisation and employee share ownership schemes.

The survey shows that 25 per cent of men own shares compared with 17 per cent of women. Fifty-five per cent of share-owners are male.

Almost 30 per cent of people aged 45-64 own shares compared with 15 per cent of people aged 75 or over and only 5 per cent of adults under the age of 25.

More than half the adult population with a average gross weekly income in excess of £350 per week (including income from investments such as shares) own shares.

Two-thirds of those with an income of more than £450 per week own shares.

By contrast, among people in the lower income groups, only 15 per cent per cent of those with weekly incomes of between £50 and £100 owned shares.

Thatcher sets her sights firmly on completing single market

COMPLETION of the single market was the most important aspect of further European Community integration, Mrs Margaret Thatcher, the Prime Minister, said yesterday.

In a statement to the House of Commons following the Council of Ministers' meeting in Strasbourg, she added that priority should be given to measures affecting company mergers, investment services, life assurance and transport.

She brushed aside Opposition claims that she had been left isolated on issues such as the Social Charter, monetary union and a European bank.

Mrs Thatcher stressed the role 1992 would play in developing the Community as an example of democratic nations working together while remaining open to the outside world.

"That is the way in which Britain wants the Community to develop and despite disagreements on some points, the Strasbourg Council encourages us to believe that is how the Community will develop, with Britain playing a very full part," she said.

New measures including rules on company mergers and the further opening of public sector procurement would be agreed before the end of the year.

The removal of restrictions on investment services, life assurance, shipping and road and air transport were also being given priority, she added.

Mrs Thatcher restated her view that the conditions for British entry into the exchange rate mechanism of the European Monetary System remained unchanged since the Madrid European Council meeting. She added, however, Britain would not insist upon dotting every "i" and crossing every "t" of these conditions.

Mr Neil Kinnock, the Labour Partyleader, said the Prime Minister had been effectively defeated on the Social Charter, monetary union and setting up a European development bank to help Eastern Europe.

He said that whatever scepticism was shared over stages two and three of the Delors report on monetary union, the least effective way of influencing discussions was the Prime Minister's habit of strident opposition.

For Britain to have its proper influence in the EC, it had to be properly involved, he said.

Mrs Thatcher said Britain disagreed with the Social Charter since it would raise labour costs and put jobs at risk.

Bombers' security status reviewed

By Kieran Cooke in Dublin

THIS WEEK'S Home Office decision to recategorise the Birmingham Six prisoners was yesterday welcomed in Dublin.

The move was announced as signs were growing that the campaign to have the Six released is gathering pace.

The Six were given life sentences in 1975 for killing 21 people in explosions at two Birmingham public houses. The bombs were alleged to have been planted by IRA terrorists.

The men, all Irish, have always protested their innocence saying they had been forced to make false confessions by the West Midlands Serious Crimes Squad, itself now under investigation.

The Home Office announced on Monday that the Six were being recategorised from Category A, the status of IRA prisoners, to Category B, which involves fewer restrictions on movements within the prison system and on visitors.

Government sources in Dublin said the Home Office move was an important step but repeated that it was now clear the whole case had to be reopened.

Fine Gael, the main Irish opposition party, said that the move could not detract from the campaign to have the Six "declared innocent and released."

Mr Charles Haughey, the Irish Prime Minister, raised the Birmingham Six case in a meeting with Mrs Thatcher in Strasbourg last weekend.

At the same time more than 10,000 people marched through central Dublin as part of a "Parade of Innocence" to celebrate the release of the Guildford Four and call for the immediate release of the Birmingham Six.

In Brief

French oil subsidiary sells assets in N Sea

The UK subsidiary of Elf Aquitaine, the French oil company, yesterday sold a large part of its North Sea oil portfolio to Petrofina of Belgium as part of a rationalisation of its assets.

The move is the latest in a series of such deals, of which the biggest, in September, was BP's $1.3bn sale of assets, inherited from its acquisition of Britoil, to Oryx Energy of the US.

Yesterday's sale, thought to be worth £10m-£20m, affects 32 out of the 110 North Sea blocks in which Elf Aquitaine UK was involved.

TV trade surplus

Britain enjoyed a trade surplus in colour television sets during the first nine months of this year, while the trade deficit in video recorders was cut by more than half, according to the British Radio and Electronic Equipment Manufacturers' Association.

The association said despite the poor trade performance of other sectors of British industry, the UK showed a positive balance in colour televisions of £41.1m for the first nine months or this year.

Credit slowdown

Britain's instalment credit lenders are reporting a slowdown in high street spending, confirming indications that Christmas may be less merry this year.

The Finance Houses Association, whose 45 members account for over 80 per cent of instalment credit outside that owed to banks and building societies, say that balances outstanding on credit cards are dropping as borrowers keep a tighter rein on their finances.

Port at standstill

Felixstowe, the UK's largest container port, was at a standstill for the second day yesterday following a walkout by dockers in a dispute over changes to work practices.

Airport strike-bound

Talks continued yesterday to try and resolve the 11-day-old Manchester Airport baggage handlers' dispute, which has shut the airport for passenger traffic since Monday, when firemen refused to cross picket lines.

Vaccine import plan

The Department of Health is considering drug makers' plans to import 180,000 extra doses of influenza vaccine from the Continent to cope with the epidemic.

Haughey rejected

Mr Jim Nicholson, Ulster Unionist MEP, has rejected an invitation to talks with Mr Charles Haughey, the Irish Prime Minister, about ways to further co-operation between the Irish Republic and Northern Ireland in the context of the European Community.

Ulster export need

The prosperity of many companies in Northern Ireland's small business sector depends on the effectiveness of their exporting strategies, according to a report published yesterday.

The Local Enterprise Development Unit, Ulster's small business agency, created 5,004 jobs last year, mainly through the expansion of existing companies, and the organisation is working closely with exporting companies to try to penetrate European markets further.

Cardiff Bay plan

The Government is to put £100m into the development of Cardiff Bay over the next three years, more than originally expected. The development is the largest urban regeneration programme in Europe outside London's docklands.

In June, the Cardiff Bay Development Corporation received a £7m top-up, taking its budget for the current year to £29m.

FT prints Observer

The Financial Times has won the contract to print The Observer, the UK Sunday newspaper owned by the Lonrho group, at its printing plant in East London.

BAe may pay less than £100m for Rover Group

By Charles Leadbeater, Industrial Editor

THE real price British Aerospace may pay for its acquisition of the Rover Group, the former state owned car company may be less than £100m, the Government acknowledged yesterday.

The admission accompanied the Government's publication of a set of confidential letters which record the detailed negotiations last July over the privatisation.

Mr Nicholas Ridely, the Trade and Industry Secretary published the papers in an attempt to regain the initiative in the affair which has dogged the Government for the past two weeks after the disclosure that British Aerospace was given secret financial inducements worth £38m.

The disclosure of the extra concessions followed the publication of a National Audit Office report on last August's privatisation, which found that the £150m price fell well short of Rover's true value.

However, Labour immediately responded to Mr Ridely's move by claiming that the central issue, the extent of the tax benefits British Aerospace gained from the deal, remained unresolved.

Mr Ridely, in a covering letter to Mr Gordon Brown, the Labour Party opposition's trade and industry spokesmen, acknowledged that the Government allowed BAe access to Rover's capital losses and unclaimed capital allowances for tax calculations, to offset the European Commission's decision to reduce the amount of state aid paid to Rover.

In doing so the Government was merely treating British Aerospace on a par with any other UK company, Mr Ridley said.

He said the value of the tax benefits could not be predicted and were never negotiated.

The value of the tax benefits will depend on how far Rover's past trading losses can be used to offset tax on future profits and the way the capital losses could be used to reduce taxes on capital gains, for instance from property sales.

Yet Mr Ridley acknowledged that BAe estimated at the time of the talks that the tax changes would yield £35m - or £10m more than the Commission's estimate when it calculated the amount of state aid which could be paid.

However, Mr Ridley said neither estimate included a valuation of tax benefits from Rover's trading losses. When these were calculated by Touche Ross, the accountants, the total tax gains were estimated at between £33m and £40m.

The extra tax benefits, over and above those estimated by the Commission, combined with the £38m in secret inducements, could reduce the real cost of the acquisition from the £150m price negotiated to less than £100m.

The letters also reveal that senior Inland Revenue officials were brought into advise on the tax implications of the acquisition. They assured the company that any action by the Revenue would first be sanctioned by its six member board.

The Revenue said there were several precedents for the board deciding on whether actions should be taken against a company after an acquisition. It said it was not uncommon for companies to seek its advice over complex tax issues.

The letters also reveal that Professor Roland Smith failed in a last ditch bid to reduce the amount of state aid the company might have to pay back if it departed from Rover's corporate plan to 1992. However the company was assured by the Government and the EC that it would be able to modify the plan and only major departures would be investigated.

BAe only outlined on paper its general plans for the Rover Group on the final day of the negotiations.

Saudi arms payments expected to rise after new crude oil plan

By David White and Victor Mallet

THE FLOW of Saudi payments for £15bn of British weapons and defence services is expected to increase by about 25 per cent under crude oil sale arrangements being negotiated.

The increase of some 100,000 barrels a day over the 400,000 barrels currently set aside to pay for the arms supplies should be sufficient to prevent further payment shortfalls on the British Aerospace-led deal - for the time being.

The expected change in financing arrangements follows a cash payment by Saudi Arabia of nearly £2bn to cover a deficit on BAe receipts before the company's year-end on December 31. This averted the need to make immediate use of a £2bn loan facility being discreetly arranged with about 35 banks.

The UK Government's Export Credits Guarantee Department was to have guaranteed about £1.25bn of the loan, although there were Treasury reservations about providing support.

The deficit arose because the flow of cash from the oil liftings was insufficient to cover the value of scheduled deliveries of Tornado combat jets other aircraft.

It is understood that leaks about the loan discussions may have embarrassed the Saudis into making their exceptionally large cash payment.

The amount of oil lifted to pay for the deal has risen progressively from about 200,000 b/d in the initial stages of the so-called Al-Yamamah agreement, which dates from 1985. Actual liftings vary considerably from week to week.

About 30 of the 72 Tornado aircraft agreed in the first stage of the agreement remain to be delivered. Last year a second stage was agreed covering 48 more Tornados, other aircraft including BAe Hawk fighters and Westland Black Hawk helicopters, an airbase, mine hunters, shore facilities, weapons, spares and training.

The oil for the deal is lifted by Royal Dutch/Shell and British Petroleum and the proceeds placed in a Saudi account in London, from which the British Ministry of Defence draws funds to pay BAe.

Press watchdog unveils new code

By Raymond Snoddy

THE Press Council, the newspaper industry's voluntary regulatory body, yesterday unveiled a tough new code of conduct for newspapers designed to prevent abuses such as unnecessary invasion of privacy.

The new code made public yesterday after a full meeting of the Council is part of package of reform initiated under the chairmanship of Mr Louis Blom-Cooper designed to modernise and speed up the work of the Council.

Under the new proposals editors and journalists judged by the Council to have acted improperly could be named as part of an official reprimand.

In its report the Press Council emphasises it is not a disciplinary body but expects its censure or serious criticism of improper or unethical conduct to discredit editors and journalists at whom it is aimed and to be weighed by those who employ them.

"To this end, complaints will in future be registered against individual editors by name and not simply against the title of the publication."

Revamp likely to prompt protests over privatisation plans

BR completes business decentralisation

By Kevin Brown, Transport Correspondent

BRITISH Rail is to complete the decentralisation of its operations by creating separate balance sheets for its five business sectors.

BR also plans to transform its corporate balance sheet by incorporating millions of pounds worth of assets, mainly bridges and tunnels, which are currently excluded.

The changes will be revealed in BR's 1989 corporate plan, which is expected to be published next week after a delay of several weeks caused by an inter-departmental row over the details between the Transport Department and the Treasury.

The plan is likely to prompt claims from railway trade unions that BR is being split into separate units as part of the preparation for possible privatisation after the next general election.

However, officials say the changes are in line with a process of commercialisation which began in the early 1980s under the chairmanship of Sir Peter Parker and has continued with great success under Sir Robert Reid.

The effect will be to establish the five business sectors - InterCity, Network SouthEast, Freight, Parcels and Provincial - as separate subsidiary businesses of the British Railways Board (BRB).

Each will be allocated a share of the assets of the railway, such as track, signalling and stations, on the basis of BR's "prime user" concept, which means that the upkeep of infrastructure is paid for by the sector which uses it most.

The incorporation into the BRB balance sheet of assets such as tunnels and bridges will have the effect of reducing the corporation's apparent return on assets, and will be reflected in the balance sheets of individual sectors.

However, it bring BR's accounting practices more into line with private industry, and will provide a much better basis for valuing the true performance of the railway. Officials say it can be phased in over two years without much difficulty.

The corporate plan will set out BR's corporate objectives for the five years to 1993/94, including revenue and capital investment forecasts, and quality of service targets.

Its publication has been delayed because of a disagreement between the Transport Department and the Treasury on fresh Government objectives for BR for the first three years of the plan.

That obstacle is expected to be cleared later this week, when Mr Cecil Parkinson, the Transport Secretary, will announce that BR's main subsidy, the Public Service Operating grant, will be cut by 25 per cent by 1992.

This follows a reduction of 51 per cent in PSO grant over the last five years to £549m last year, and is likely to be heavily criticised by rail users' groups such as the Central Transport Consultative Committee, the statutory BR watchdog.

The PSO announcement will also include more demanding financial targets for BR's three profitable sectors - InterCity, Freight and Parcels, and the two subsidised sectors, Network SouthEast and Provincial.

However, BR appears to have fought off Government demands for the Freight sector to increase its rate of return on assets from 2.7 per cent to 8 per cent.

The Transport Department has accepted a compromise figure of 5 per cent, but this is believed to be one of the areas of disagreement between Mr Parkinson and the Treasury.

Both BR and the Government have virtually abandoned work on the possible privatisation of BR because of the difficulties of introducing competition without breaking up the network.

Iveco Ford and Leyland DAF to cut truck output

By Kevin Done, Motor Industry Correspondent

IVECO Ford and Leyland DAF, the UK subsidiaries of international truck makers, are cutting output sharply and introducing a temporary four-day week in response to the steep drop in UK truck sales during the last quarter of the year.

Leyland DAF, the UK subsidiary of DAF of the Netherlands, which controls about 20 per cent of the UK truck market (above 3.5 tonnes gross vehicle weight), is resorting to a package of measures in order to cut output and reduce stocks.

Iveco Ford, the joint venture between Iveco, the commercial vehicles susbsidiary of Fiat of Italy and Ford of the US.

Iveco Ford, the UK market leader with a share of more than 22 per cent in the first 11 months of the year, has already cut the daily production rate at its Langley, Berkshire, plant by 20 per cent to 63 vehicles a day from the peak of 79 a day at the end of last year.

Some of the smaller UK truck makers such as ERF and Seddon Atkinson, the UK subsidiary of Enasa of Spain, have already been forced to cut their workforces including compulsory redundancies.

UK commercial vehicle sales plunged in November for the second month in succession, and the industry is bracing itself for a further steep fall in 1990 as the economic squeeze tightens, hitting both investment and retail activity.

Leyland DAF has told the 2000-strong workforce at its Leyland, Lancashire assembly and components plants it is:

- Introducing a four-day week for nine weeks from February 16;
- Extending the Christmas-New Year plant shut-down by four days;
- Cutting the daily production rate by 9 per cent from 68 to 62 trucks a day;
- Introducing an "enhanced early retirement package" at the Leyland plants in order to reduce the workforce.

Leyland DAF said these measures, which imply a 27 per cent cut in output at least for a nine-week period in the first half of next year, were intended to avoid the need for compulsory redundancies.

Output for the whole of 1989 at 14,581 trucks is expected to be 10.5 per cent lower than the 16,293 achieved in 1988, and is forecast to fall sharply again in 1990.

Iveco Ford is planning to extend the holiday plant shutdown by eight days with no production between December 18 and January 9. In addition it will operate a four-day week for five weeks from early January to mid-February.

- ERF, the last remaining publicly-quoted independent UK truck maker, has cut its workforce by nine per cent.

UK NEWS

EC market may impose tax levy on power bills

By John Hunt, Environment Correspondent

VALUE ADDED TAX could be imposed on electricity and gas bills in Britain as a result of the completion of the European Community's internal market after 1992, according to a report prepared for the Government.

The report suggests the Government may have to levy VAT on alectricity and gas bills as part of EC harmonisation, though possibly at less than the standard 15 per cent.

The report on how harmonisation could affect the environment, published today by the Institute for European Environmental Policy, has been prepared for Mr Chris Patten, the Environment Secretary. In an introduction, Mr Patten endorses integrating environmental protection with the Community's other policies.

The report suggests serious consideration be given to an EC energy tax amid concern about the possibility of global climate warming – the greenhouse effect.

For example, it says, car ownership and environmentally damaging road freight will continue to increase, leading to higher fuel consump tion, air pollution and pressure for road building.


Patten: endorses protection

"These pressures are already politically sensitiva in the south-east of England and will be increased by 1992 because of its proximity to the centre of gravity of the EC," the report warns.

Environmental Policy and 1992, by Nigel Haigh and David Baldock. Institute for European Environmental Policy, 3, Endsleigh St, London WC1H ODD. £5.

ICI unhappy with record in waste control

Peter Marsh looks at the environmental pressures on the UK's largest manufacturer

Imperial Chemical Industries, Britain's biggest manufacturing company, said yesterday it was less than happy about its record on pollution control but said it had no firm target for reducing waste emission from its plants.

Its comments came in tha wake of a television programme on Monday night which painted a dismal picture of environmental shortcomings at ICI's chemical factories.

The problems are concentrated in the UK, where ICI has most of its biggest plants. Many are old and have yet to be equipped with the ultra-clean technologies increasingly used by chemical companies elsewhere in the world.

The environmental problems with which ICI is now wrestling are likely to become more acute over the next few years for the chemical industry as a whole.

It is a large and highly visible manufacturing sector under increasing pressure from environmental movements because of large amounts of waste materials it produces.

As the world's fourth biggest chemical company – after West Germany's BASF, Bayer, and Hoechst – ICI might be expected to be in the vanguard of pollution control technologies but in recent years it has lagged considerably behind the big German companies in the resources it devotes to this area. That has less to do with inherently green attitudes by the German companies as to the much greater public pressures which exist in Germany regarding environmental issues.

The growth of the Green party in Germany has led to legislation on pollution control acknowledged to be the toughest in the world and has forced the German chemical industry to spend large sums over the past decade on cleaning up its operations.

One senior figure in the West German industry said of ICI a fortnight ago: "I think attitudes there are changing. We only changed ourselves (in the German chemical industry) because of the pressures that were brought to bear. In my view ICI is at the beginning of a learning process."

Much of ICI's general slowness to grapple with environmental issues over the past two years can be linked to the personality of Sir Denys Henderson, its chairman. An out-and-out marketing man with little in the way of a science background, Sir Denys gives the impression of being less than comfortable in talking about the details of waste problems.

One ICI manager said of Sir Denys: "He would much rather be talking about how ICI can raise its image among shareholders and customers than engaged in a dialogue with environmental groups."

This contrasts with the position in Germany where chemicals leaders – in particular Mr Hermann Strenger, chairman of Bayer, and Mr Hans Albers, his opposite number at BASF – are happy to enter into animated conversations on this subject even if they spend most of their time complaining abont the undne pressures they feel West German environmental legislators are putting on their companies.

Both Bayer and BASF have detailed plans for the next few years related to the money they are planning to spend on environmentally related technologies and on the degrees to which they intend to reduce emissions of waste substances into the air and rivers and as solid landfill.

Bayer is halfway through a five-year programme of environmental improvement which will cost DM3b while BASF is planning to spend DM2b on such investments by 1993. in both cases the cash relates just to the company's German plants and will be spent on such projects as new incinerators for burning solid waste and systems to treat flue gases and waste water to reduce pollutants.

As for for ICI it was hard pressed yesterday to come up with any figures related either to the current volume of waste products from its plants or to any specific plans for the future relsted to pollntion reduction.

The company said it was spending about £100m a year worldwide on environmental projects – about a 10th of total capital spending – and had increased the sum considerably in recent years.

About £40m a year was being spent on environmental improvement at the company's mainly UK-based chemicals and polymers divisions the heavy chemicals end of ICI which produces especially large amounts of waste materials.

ICI admitted that on 700 occasions over the past four years its UK plants had reached pollution standards set by river and water authorities but it said this figure should be related to the total of 30,000 analyses of effluent streams from ICI plants made hy the authorities over this period – virtually all of which had been shown to be within legal limits.

"We are convinced we need to raise our environmental performance," said ICI. "We aim to reach 100 per cent compliance with legal limits related to waste emissions bnt we have no date as to when we will achieve this."

That is a particular difficulty in West Germany where one executive complained recently that his company had "to keep running to stand still" in the area of pollution levels. "Whenever we achieve one target the Government changes the recommended level to squeeze us a little more," the executive said.

Another problem – which applies to any issue related to chemical pollution is to relate the incidents in the environment of specific toxic materials from chemicals factories to the concentrations of the substances which are known to be a health hazard

Most scientists say it is impossible to stop all such potentially hazardous materials permeating into the environment from industrial operations. But there is wide disagreement about exactly how much of a specific material constitutes an unacceptable risk.

Another factor which ICI executives alresdy ackoowledge they are concerned about is the prospect of harmonised European Community enviroomeotal legislation becoming enacted in the wake of the 1992 programme which could bring UK pollution control regulations to the same kind of levels as those prevailing in Germany.

Survey shows 23 organisations to leave London within the year

By Hazel Duffy

THE number of organisations planning to move out of central London is on the increase, according to the annual survey by chartered surveyors Jones Lang Wootton.

The survey reveals, however, few pointers to the big pnsh northwards wbicb regions have been hoping for despite the high costs and labour shortages in the south.

Twenty three organisations plan to move out of central London next year, and 26 are already committed to move in the period 1991-3.

Decentralisation in 1991 will be influenced significantly by three big moves to London Docklands. They are Credit Suisse First Boston, Merrill Lynch and Morgan Stanley.

Another 23 unidentified companies say they are "serioosly considering relocating parts or all of their operations from central London". Service companies continue to dominate the list of movers. The impact of decentralisation on the central London office market has been marginal.

Over the next three years, office space vacated in central London will average 1.4m sq ft a year, but this will be equal to less than 1 per cent of the total central London offica stock.

CBI condemns structure of uniform business rates

By Richard Evans

A CONDEMNATION of the way the new uniform business rate, due to be introduced in England and Wales next April, has been structured hy the Government was issued yesterday by Mr John Banham, director general of the Confederation of British Industry (CBI).

He warned that the sheer scale of the dissatisfaction among industrialists and businessmen was likely to be "very considerable" as over 500,000 businesses would see their bills for rates, a local property tax, rise by 20 per cent a year in real terms for at least the next two years, and nearly 200,000 would see this rate of annual increase sustained for at least five years.

Yet 100,000 businesses which were reasonably expecting a fall in their rates bills of at least a half would see little substantial change because of the transitional arrangements.

"The combination of disappointed expectations and heavy losses promises a difficult time for Government supporters in the new year – a hurricane in terms of parliamentary protests might well be in prospect," he forecast.

Mr Banham, speaking at a conference on the uniform business rate, also known as the national non-domestic rate (NNDR), said the CBI accepted the need to reform the rating system.

In his view the new rate failed two of the requirements of fair tax – it reflected neither ability to pay, nor the level and quality of the local services that business received.

It failed two important business tests as well. Far from strengthening local accountability, the tax involved a further shift of power and influence away from the local level to the centre, and it involved a £2bn cross-subsidy by business of community charge payers.

FT LAW REPORTS

Jewel insurance case goes ahead in UK

S & W BERISFORD PLC AND ANOTHER v NEW HAMPSHIRE INSURANCE CO

Queen's Bench Division (Commercial Court): Mr Justice Hobhouse: November 11 1989

INSURANCE proceedings properly served on a foreign defendant at its London office cannot be stayed on the ground that the case would more appropriately be heard elsewhere, in that though both parties may not be domiciled in a country which is party to the Jurisdiction and Judgments Convention, the defendant is "deemed" through its office presence to be domiciled in the UK and must therefore, under the Convention, be sued in UK courts.

Mr Justice Hobhouse so held when dismissing an application by the defendant, New Hampshire Insurance Co, to stay proceedings served on it in the UK by the plaintiffs, S & W Berisford plc and its New York subsidiary, NGI International Precious Metals.

HIS LORDSHIP said that by two writs dated April 3 1989, Berisford, a UK company, and NGI, its New York subsidiary, began proceedings against New Hampshire in the UK.

New Hampshire was a US corporation with an office in London. It was properly served at that office.

NGI carried on business in New York, manufacturing and selling gold jewellery and watches.

The actions ware brought under two insurance policies taken out by Berisford on the London market through Londou brokers, with New Hampshire's London office. Berisford took the policies out on behalf of itself and its subsidiaries. The alleged losses were suffered by NGI.

The allegations in both actions were that between June 1986 and May 1988 $54m worth of gold, diamonds, coloured stones and other materials or work in progress were stolen from NGI at its New York premises.

NGI said it had been victim of systematic thefts by employees belonging to the "Russian Mafia". The supporting evidence only extended to a very small proportion of the total loss alleged. New Hampshire questioned that the losses ever took place.

The main policy under which the claims were made was a Group Permanent Cargo contract, which insured Berisford and its subsidiaries, and covered goods, merchandise, produce and materials, with world wide application.

The contract incorporated the Institute Cargo Clauses (A). The policy was therefore required to be on the MAR form, which was used by the Institute of London Underwriters as a "companies marine policy", and bore the words "this insurance is subject to English jurisdiction."

The relevant contracts were all made in London as part of the business carried on in London by New Hampshire's London office. It was accepted that they were governed by English law.

By the present summons New Hampshire asked that pursuant to section 49(3) of the Supreme Court Act 1981 and the court's inhereut jurisdiction, all proceedings be stayed on the ground that the appropriate forum for trial of the action was not London, but New York. It was a *forum non conveniens* application.

The first issue was whether the jurisdiction clause in the policy was exclusive or merely permissive.

The words "This insurance is subject to English jurisdiction" had to be construed in England and governed by English law". They appeared on a printed document headed "The Institute of London Underwriters".

Taking the contract at its face value there was no need for the parties to provide that English jurisdiction be permitted. Such jurisdiction already existed.

The alternative constructions were it was simply declaratory, or it was an exclusive jurisdiction provision.

The correct approach to the construction of jurisdiction clauses was considered in *Sohio v Gatoil [1989] 1 Lloyd's Rep 538*, where the Court of Appeal approved a statement in *Dicey* - "the question is whether on its true construction the clause obliges the parties to resort to the relevant jurisdiction irrespective of whether the word 'exclusive' is used".

In the present case the words used were inapt to create any obligation. If one had been intended, it could easily have been stated in clear words.

The clause though creating no obligation to sue only in Engand, was a contractual acknowledgement of the jurisdiction of English courts. It was not an exclusive jurisdiction clause.

That conclusion did not mean the clause was irrelevant to the present application. If the contract said the assured could sue in England, it required a strong case for English courts to say that the right should not be recognised and that he must sue elsewhere.

The second issue was whether the 1968 Jurisdiction and Judgments Convention (see Civil Jurisdiction and Judgments Act 1982) applied, where there was no exclusive jurisdiction clause and if both parties were domiciled in a non-Convention country.

Article 2 of the Convention laid down the general rule that a person domiciled in a contracting state should be sued in the courts of that state.

Article 8 provided that an insurer who was not domiciled in a contracting state, but had a branch in a contracting state "shall in disputes arising *out of* the operations of the branch...be deemed to be domiciled in that state".

It was not disputed that New Hampshire had a branch in England and that the dispute arose "out of the operations of that branch." Therefore, if article 8 applied, New Hampshire was "deemed" to be domiciled in England, and the Convention provided that it should be sued here.

If New Hampshire was not to be treated as domiciled in England, article 4 applied, which provided that if the defendant was not domiciled in a contracting state, "the jurisdiction of the courts of each contracting state shall ... be determined by the law of that state."

The Convention provided more than sufficient jurisdiction for the present court to exercise the jurisdiction invoked by Berisford.

New Hampshire submitted that the Convention did not apply, because neither NGI (the effective plaintiff), nor New Hampshire, was domiciled in the UK or any other Convention country. It submitted that the Convention only applied if either or both parties were so domiciled.

The submission was rejected.

The primary purpose of the Convention as stated in its preamble, was "to procure the simplification of formalities governing the reciprocal recognition and enforcement of judgments . . ."; and to "determina the international jurisdiction of the courts, to facilitate recognition and to introduce an expeditious procedure . . ."

To limit the Convention in the way contended for by New Hampshire, would be inconsistent with achieving its primary objective.

Perhaps the most conclusive evidence against the New Hampshire argument was the text of the Convention itself. In many places it contemplated that either one or both of the parties might not be domiciled in a contracting state. Article 4 expressly legislated for such a situation.

If the Convention did apply, the next question was what was its effect.

The primary provision was the deeming provision in article 8. New Hampshire was to be treated as if domiciled in the UK. *Prima facie*, under article 2, it should be sued in the UK court.

The net result of article 8 and article 2 was that New Hampshire should be sued in the English court.

Tha Convention was designed (subject to article 4) to achieve uniformity and to harmonise procedural and jurisdictional rules of the courts of contracting states.

The application failed. The court had no discretion to stay the proceedings.

For New Hampshire: Stephen Tomlinson QC and Jonathan Gaisman (Hill Taylor Dickinson)

For Berisford: Sydney Kentridge QC and Julian Flaux (Clifford Chance).

Rachel Davies
Barrister

MANAGEMENT

Manufacturing efficiency

Added value emanating from acronyms

Charles Leadbeater explains the implications of such systems as DRP, MRP II, OPT, JIT, CIM, etc

Production planners at ICI Agrochemicals could be forgiven for having a headache.

The company, which has an annual turnover of £1.2bn, faces highly seasonal demand from farmers for its products, in quantities ranging from a 250ml bottle to a 200 litre drum.

Planning to meet such variations in a purely national market might be bad enough. But ICI Agrochemicals sells 80 per cent of its output through 40 separate national companies from the US to Papua New Guinea. Another 140 countries are supplied directly from the UK.

Until recently each national company ordered its stocks from the UK through a monthly order, which was manually entered onto a central register. National companies frequently used different methods to calculate orders. Manufacturing needed three months to respond to the request, whereas customers often wanted delivery within 48 hours of placing their order.

In other words forecasting demand, planning re-stocking and thus production schedules was a nightmare. The company's response to these problems is a telling case study of how modern computer-based manufacturing control systems have a capacity to generate much more than simple manufacturing efficiency.

In 1986 the company decided to introduce a computer-based system, which would link all 40 national companies to the UK to provide the basis for a common method of ordering stocks. The aim was to ensure that the internationalised marketing arms of the business and the UK manufacturing centre would work from the same set of numbers.

The system, Distribution Resource Planning, was intended to reduce inventories and lead times, while ensuring that national companies had a buffer against unexpected surges in demand.

A personal computer system was installed at each of the 40 national companies, linked to a mainframe system in the UK. Staff from the UK spent up to six months in each subsidiary introducing the software and operating procedures for the new ordering system.

The system, which is still in its early days, is already producing improved customer service, with an increasing number of companies reaching 95 per cent customer satisfaction with lower stocks.

But in the process it opened up a series of other issues the company had to tackle. As the short-term forecasts of demand have become more accurate so it has exposed the need for improved long-term planning of the supply of base materials for the fertilisers.

Such tales of reduced lead times, enormous savings on inventories, improved quality and more satisfied customers, were echoing around the corridors of Birmingham's National Exhibition Centre last week as the British Production and Inventory Control Society gathered for its annual conference.

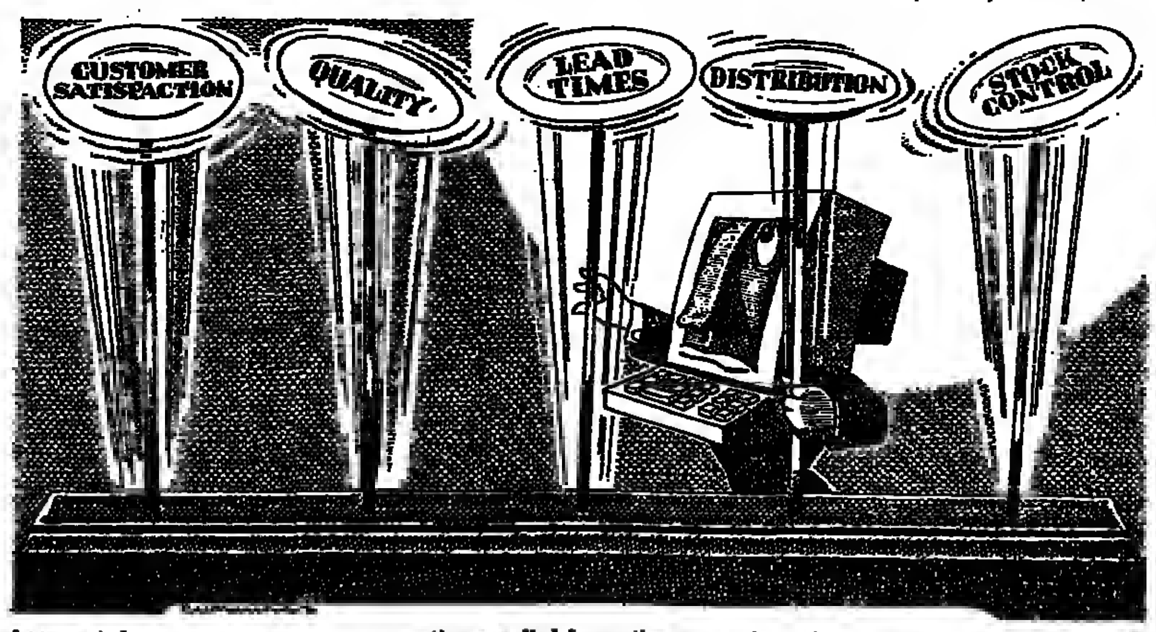
Mingling with tales of improved performance was the peculiar language of modern manufacturing: DRP (Distribution Resource Planning), MRP II (Manufacturing Resources Planning), OPT (Optimised Production Technology), JIT (Just-In-Time), CIM (Computer Integrated Manufacturing) and so on.

However, beneath the plethora of acronyms the participants were discussing mutual problems, aims and solutions.

The common problem was how to translate the brave promises of a customer-driven business into tangible changes in manufacturing. This raises another set of problems: inaccurate data to control the flow of work through an assembly line, bulging stocks and work in progress, yawning gaps between production lead times and the response times expected by customers, and the difficulties of including suppliers in revised production plans.

Companies have developed a diverse set of responses to these problems. But common themes run through many of the most successful. Four themes stand out :

- Sophisticated computerised systems, such as MRP II, which control the flow of materials through the supply chain, to an automated assembly line, can be very useful. But they are not sufficient.
- The introduction of a computerised production planning schedule has to be set within a wider context. It relies on translating a broader business plan into narrower manufacturing objectives. Its implementation within manufacturing will create pressure for complementary changes in marketing, sales, distribution and suppliers.
- This could require far-reaching organisational changes, with people from different departments, from accounts to design, addressing the difficulties of planning the production of a single product.
- Some of the sessions were devoted to companies which were contemplating reintroducing MRP II after an initial failure. The requirements for success include commitment from senior management, extensive training and education, and pragmatism. The introduction of a computer-controlled production system will change the character of manufacturing. So the computer system itself must be flexible enough to respond to the changes it has created.



These themes run through the abundance of good practice presented to the conference*, which amounts to a textbook of the rewards and pitfalls of introducing these systems.

For several companies the starting point was the introduction of just-in-time production within automated manufacturing cells.

According to Roger Hacking from BAeCam, which supplies manufacturing control systems to British Aerospace's military division: "A critical element in the success of advanced manufacturing technology systems is the integration of the technical and business systems through computer-integrated manufacturing. A fundamental component is the control system connecting the machinery on the shopfloor with the factory-wide system."

This was borne out by the implementation of a computer-controlled, flexible manufacturing cell to precision bore wing components for the Airbus A320.

The technology of the cell itself is impressive. The system pulls together computers manufactured by Nixdorf, Olivetti and Bull, with a Siemens programmable logic controller which operates the workstations and a GEC programmable logic controller on the automatic transporter system.

But Hacking said it would never realise its full potential unless it were able to work on accurate information supplied from other parts of the business such as new orders, completed orders, cutter lists, part specifications and inspection data.

Richard Wyatt, operations director at Plessey Defence Systems, explains that the company set up a just-in-time cell team which was encouraged to hold problem-solving meetings at the end of each shift, with the power to take decisions about how production should be changed. He says the cell production philosophy reduced production lead times by half to one month, cut work in progress by 42 per cent and brought actual production within a whisker of the forecast level.

Rolls-Royce also emphasised the human aspects to computer integrated manufacturing. Peter Dobbs and David Deakin, who have been closely involved with the company's manufacturing strategy, warned against over-ambition.

Their paper said: "In the early 1980s, Rolls-Royce, along with the rest of manufacturing, believed its future lay in grand flexible manufacturing systems. However, it soon became evident that vast sums of capital would be required and that many additional highly qualified engineers would be needed."

The realisation that sophisticated systems could only be used for a portion of its output forced a change of approach and the introduction of the manufacturing systems engineering initiative in October 1987.

A task force, drawing on staff from a wide range of departments, was set up to consider how the whole manufacturing process could be simplified without vast investment. The aim was to "get away from the blind efficiency of the traditional process-based factory."

Training the future operators of just-in-time cells was judged to ba crucial. But instead of using computer simulations the task force used manual, table-top models of the cells, designed with the help of the eventual end-users – the workforce.

The manufacturing systems engineering initiative has spread across the company's nine major manufacturing sites. The typical just-in-time cell has reduced lead times and inventory by 75 per cent and improved quality by 68 per cent.

Jaguar Cars, the luxury car manufacturer, just bought by Ford, and Ferranti Computer Systems both highlighted the importance of selecting the right targets.

Ferranti Computer Systems has introduced optimised production technology (OPT), a computer system which identifies key production bottlenecks and then schedules the rest of the production process to ensure stocks do not build up behind the bottleneck.

Within the first three months a pilot assembly line had cut work in progress by 85 per cent and reduced lead times from an average of 12 weeks to five weeks.

However, several companies argued that despite the record of just-in-time production cells, efficient manufacturing was only possible with improvements outside the manufacturing area.

Thus Graham Horn, from IBM's Industrial Systems Marketing Department, told delegates that at his company "the integration of design and manufacturing departments at the initial design stage has been the principal element in achieving improvements in manufacturing performance."

If consideration was never given to whether components could be dealt with automatically, "the automation engineer's efforts would ba seriously constrained," he warned.

Since 1983 IBM has been developing closer links between its design and manufacturing departments to make sure that products are designed with fewer, simpler parts which can be easily manufactured by flexible manufacturing cells.

Design for manufacture has brought IBM impressive cost savings. One part on the IBM 4720 printer was redesigned, thus reducing the manufacturing cost from $5.95 to $1.81 and its assembly time from three minutes to a matter of seconds.

Involving the design, marketing and sales departments in manufacturing decisions may be novel. But some companies have had to go much further afield to make computer-integrated manufacturing systems work.

York International, which makes air conditioning equipment at its factory in Basildon, Essex, has drawn its suppliers into its MRP II and JIT system. Supplier development and education days, which were launched in 1987, helped to raise on-time delivery from 37 per cent of components to 82 per cent. This has been superseded by a much more ambitious programme.

This year a handful of York's suppliers agreed to weekly instead of monthly deliveries in response to orders placed by shopfloor production co-ordinators rather than the purchasing department. The supplier base had been reduced from 340 companies to 190, with the aim of a further reduction to 120 by the middle of next year. The suppliers of nuts, bolts and screws have been reduced from 21 to 3, with inventory cut by 75 per cent.

Cadbury, the confectionery manufacturer has also reviewed its approach to its supply chain, with the creation in 1987 of a central logistics department which plans the purchasing and flow of materials through its plant. Cadbury judges this logistics and production planning system so significant that this year it created a Logistics Director with a seat on the board.

Molins, which makes machinery for cigarette manufacturing, faced the problem of planning production for machines with up to 5,000 components, often custom-made.

In the midst of introducing an MRP II system at its West Country plant it found that it was taking four weeks to turn a customer order into a bill of material covering all the components needed.

According to John Waizeneker, Molins' manufacturing programme manager: "Inevitably errors were made which were often only picked up within a week of final despatch – a potential time bomb."

So 15 months ago the company introduced an expert system software package based on a "knowledge-base" for every variable assembly for each product. Operators can enter the sales specification and the computer draws on the data base automatically to identify the correct bill of materials for all the components. It takes just 30 minutes to issue a detailed order for a machine.

Many companies have worked back down their supply chain to improve links between manufacturers, designers and suppliers. Smiths Crisps, which makes crisps, nuts and snacks from six production plants has moved in the other direction – towards its customers.

Its so called pipeline management strategy utilises just-in-time sourcing, manufacturing and distribution, backed up by computerised planning and logistics. But the idea of a supply chain linked directly to customer needs has given rise to what it calls Customer Linked Manufacturing.

Peter Thornton, director of York MDM, which helped Smiths introduce the system, said: "All activity needs to be as closely linked as possible to real sales from retail outlets to achieve maximum product freshness. To achieve this the entire supply chain needs to be driven by pull signals produced either by actual orders or derived from daily market sales rates."

The first building block of such a system was in customer partnerships with retailers to explore ways of transmitting real demands more accurately to the plants. This meant developing electronic links with customers and joint initiatives to take information from the point of sale directly to the plant.

If a single lesson emerges from these examples it is this. The search for manufacturing efficiency may start with computerised production planning and just-in-time delivery schedules. But if it is to be successful it must embrace both people and systems, from suppliers through to final customers.

TECHNOLOGY

David Fishlock examines a microwave pasteurisation method that preserves food

Poison's short, sharp shock

Pinney's of Scotland, a specialist in such delicacies as smoked salmon, shellfish and pâté, plans to use microwave pasteurisation next year. Its implementation will make Britain the first nation to sell food which has been factory-treated by microwaves to prevent food poisoning.

The new preservation process was invented in Sweden in the 1960s, but it has taken two decades to perfect the technologies necessary to make microwave pasteurisation effective. At current prices, its research and development costs are around £23m, including some government support.

In those two decades, however, microwave cooking has penetrated deeply into British homes; an estimated 40 per cent have microwave ovens. For this reason, Alfastar, a subsidiary of of Alfa-Laval, the process engineering gronp, believes that its process will be accepted by the consumer, in contrast to irradiation by gamma-rays which is still not authorised in some countries.

The technique was invented by Lennart Stenström, a Swedish physicist working for Alfa-Laval. Stenström wanted to find a way of preventing food poisoning which would be as safe as canning but less damaging to the texture, colour and flavour of many foods.

He focused on microwaves as a way of heating food gently and evenly – yet quickly – to a temperature high enough to destroy most micro-organisms (about 85 deg C). Fish, for example, needs little energy to pasteurise by microwave heating. Taste, texture and nutritional value remain almost unchanged.

Stenström used the microwave process when the food was immersed in water. Food and water have much the same dielectric properties, so water spreads the microwave energy more uniformly and avoids overheating sharp corners of the food package.

What Stenström lacked, however, was a package that could be treated by microwaves (incorporating no metal) which was leak-proof. In 1974, Alfa-Laval invited the Swedish packaging specialists Akerlund & Rausing to tackle this problem. Not until 1983 were the two companies confident that they had found an answer, with a combination of polypropylene and ethyl vinyl alcohol (EVOH) films. Polypropylene provides the strength; EVOH offers an important harrier against ingress of oxygen. In addition, the pack needed a highly dependable seal.

Film thicknesses will depend on the shelf-life required, says Claes Tvingstedt, Alfastar's packaging manager. In laboratories in Lund, in southern Sweden, Alfastar has assembled a series of process demonstrations for continuous microwave pastenrisation of packaged foods. The system will be installed at Pinney's next year and will be capable of pasteurising 2m food packs a year.

The heart of the process is the thermoclave, a water-filled tunnel across which 64 magnetrons beam radio-frequency energy, to bring the food to 85 deg C. At full power the thermoclave draws 115 kilowatts – more energy than a conventional food autoclave. Time of treatment is short. A typical package takes four minutes to reach full temperature and remains there for 90 seconds, says Kenneth Bengtsson, Alfastar's technical manager. In air, it would be "technically impossible" to hold the temperature to within the 5 degrees that can be achieved in water.

Once beyond reach of the beams, the food is chilled quickly to 4 deg C. Every seal is 100 per cent inspected before a food pack enters the thermoclave, says Bengtsson. As packs emerge, an array of temperature-sensing needles is plunged into a small proportion, to verify that pasteurising conditions are being maintained throughout the food.

In developing its 2.45 gigahertz microwave technology and verifying its safety for process workers, Alfastar worked closely with the Swedish Institute for Microwaves, part of Stockholm University.

On the technology side, it worked with the Swedish Food Research Institute (SIK) in Gothenburg. For three years SIK ran a prototype Alfastar process in its own laboratories. Recent research by SIK suggests the technology will stretch to full sterilisation, in which all living organisms in the food – not just a high proportion – are killed. This requires an increase in microwave energy of only 50 per cent. It has found no chemical changes induced by microwaves that are unacceptable.

Alfastar has devised a quality management system that logs the precise process conditions to which each food pack is exposed. It will therefore be possible to relate any subsequent food problem with the conditions under which the particular pack was treated.

The process is being leased through joint ventures in which the food vendor will pay a fixed charge plus a price per package processed. "That way we can follow what's happening," says Jan Lauritzson, Alfastar's managing director. The development costs have been written off by Alfa-Laval.

Alfastar has designed a package that can be reheated by microwaves for the table without burning the fingers, and could contain such delicacies as turbot, which is too heat-sensitive to can.

Full sterilisation can be achieved by heating the food to a higher temperature, 130 deg C. SIK's experiments suggest there may be limitations to the thickness of food packages that can be uniformly sterilised, however, and that this will depend on the salt content of the food. Fruit and vegetables can be processed in thicker packages than salty meats such as ham. In one trial, SIK scientists concluded that chicken à la king, sterilised by microwaves, was of equal or superior quality to the same dish sterilised by autoclaving in an aluminium pouch.

ONE-THIRD of the estimated £1.5bn income of Alfa-Laval this year will come from food engineering, says Bo Wirsén, engineering division director.

Once the dairy industry was its main customer. But trends that have made food engineering a growth business in the late-1980s include the demands for healthier eating, convenience, freshness and variety. Wirsén cites Moscow's first MacDonalds, for which Alfa-Laval is supplying the hamburger shaping machinery.

Wirsén sees the kind of packaging technology which Alfastar has developed as an integral part of the change in emphasis. Alfa-Laval pioneered the UHT (ultra-high temperature) heat-treatment for sterilising packets of milk in the 1960s. It uses a combination of steam injection to heat-treat the milk and flash evaporation to re-concentrate it to original strength. More than 300 of its UHT sterilising plants are in operation throughout the world.

Today Alfa-Laval is eliminating the can in packaged soups and dressings, using its Twintherm technology to heat-treat the food in two separate phases, liquid and solid, and then mix them according to taste.

In mushroom soup, for example, the liquid phase (perhaps 80 per cent by volume) can be speedily sterilised. The chopped mushrooms are sterilised as a batch. The mixture is a dish that needs no preservatives and tastes of fresh mushrooms.

A small Swedish company equipped with Twintherm technology has also begun to supply bisque homard an cognac in packs for sale in French supermarkets.

At the other end of the scale, Wirsén points to the big "bag-in-a-box", developed as a modern kind of carboy, to move such mushy and acidic raw materials as tomato paste and crushed pineapple round the world under aseptic conditions. Alfa-Laval worked with the packaging group Akerlund & Rausing to develop a seven-layer plastic bag that includes an aluminium layer as an oxygen barrier.

The bag comes pre-sterilised by gamma-radiation, with a built-in bung designed to seal it without loss of sterility or oxygen contamination. It also comes with an automatic machine that will fill food bags aseptically, as big as 1,000 litres, automatically under microprocessor control.

France hooked on Minitel

Hugo Dixon describes the attractions of the videotext system

France may soon have more electronic mail users than the rest of the world put together. The same may be true for users of electronic payment and electronic trading systems.

The reason is that France Telecom's controversial videotext system, Minitel, is coming of age. Since the early 1980s, France Telecom has been lending Minitel terminals to its customers free of charge. This policy may have cost France Telecom FFr10bn (£1bn) but the result is that 5m French homes and offices are connected to it.

In the early days, Minitel was best known for providing its customers with the ability to send each other sexy messages. It has also been criticised by a French Government accounting watchdog as a waste of public money.

Minitel's 12,000 services offer people the chance to book air tickets, buy shares, order goods by mail, consult specialised databases and more. The most widely used service is France Telecom's computerised directory enquiry database, which accounts for 20 per cent of all traffic.

Most of the growth is coming from professional users, who pay higher rates, says Jean-Paul Maury, Minitel's director. In 1986 only 30 per cent of the traffic over Minitel was professional; now it is 50 per cent. In a few years Maury expects it to reach 70 per cent.

At the same time, France Telecom has brought out a series of sophisticated Minitel terminals, incorporating memory and answering facilities – and is charging for them. Customers are now so hooked on the system that 10,000 a month are signing up to rent them at an annual cost of between FFr1,000 and FFr2,000.

"It is exactly the same strategy as for the telephone," explains Maury. "In the beginning you didn't pay for the handset when you ordered a line. Now you pay for the phone set – after 100 years."

The real benefit for France Telecom is that the company can now offer services which require a large population to be connected to the system. Probably the most exciting is Minicom, France Telecom's electronic mail service which is shortly due to be offered on a nationwide basis. The drawback with most electronic mail services elsewhere in the world is that messages can only be sent to the handful of customers who already subscribe to the service, and it is necessary to know a code for the person to whom you want to send a message.

Minicom will have the advantage of starting with 5m mailboxes from the day of its launch. It will also be easy for people to find the number of a person's mailbox because it will be the same as their ordinary phone number. Within five years, Minicom will generate as much traffic for Minitel as the computerised directory enquiry service, says Maury.

In about two years' time, France Telecom plans to develop an electronic data interchange service on the back of the new electronic mail service. Electronic trading is already available in France to some large businesses which pay a subscription to France Telecom's Atlas 400 service. The advantage of offering it through Minitel is that it would reach smaller customers who would only be charged when they used the service.

In the 1990s France Telecom expects to launch electronic payment through Minitel. At present, people can use Minitel to place orders for goods and services. They can even use it to access their bank accounts. But the transfer of money has to be dealt with separately.

France Telecom is discussing with a series of banks the prospect of forming a joint company next year to operate such an electronic payment service. France Telecom is also upgrading the Minitel system so that customers can be automatically routed from one service to another without going back to the main menu.

The advantage is that, after ordering a skiing holiday in the Alps or a new set of golf clubs, for example, customers would be immediately transferred to another service presenting them with a series of payment options.

Putting health on a credit card

JUST imagine how safe and convenient it would be to carry all one's health records on a clever credit card-sized bit of plastic that can be slotted into a computer in any doctor's surgery.

The Fédération des Mutuelles de France (FMF), the country's second largest health mutual organisation, has announced plans to launch France's first experiment with that idea next year. It will involve 10,000 families in the south-east region of the Jura and if successful be extended within two years to all of FMF's 7m members.

The card, free to FMF members, contains a microchip on which a personal and confidential health file will be recorded, said Louis Calisti, president of the FMF. It will include: the patient's medical history; current treatment; 15 key medical details of blood group, allergies, and exposure to long-term diseases like diabetes; plus name, address and profession. The experiment is a step forward from the magnetic cards used by France's health mutuals, which only identify the user and allow him or her to make electronic payments, said Calisti.

The 40 doctors taking part in the Jura experiment will be equipped with card readers which can be plugged into a terminal on France's Minitel videotext system (see above). The system will enable the doctor to view health card files on an easily obtainable screen and use the Minitel keyboard to enter or amend information.

To guarantee privacy, each patient has a confidential code, which he has to type out before the doctor can use the file. In emergencies, the doctor can use a separate code to read patients' cards without their consent, but cannot change or add information on file.

The card reader, a small box which connects to a spare plug in the back of the Minitel set, will cost around FFr3,000.

A similar trial, using hardware from computer manufacturer Bull, has been in operation in the Exeter region of England since March.

William Dawkins

TECHNOLOGY MARKET

TELEVISION

A blind crapshoot by the Government

At the heart of the Government's new broadcasting policy is a large and ugly contradiction, a fact made even more obvious than before by the publication of the Broadcasting Bill. On the one hand, we are told that, as in other areas of life, the Government wants to roll back the boundaries of the state, give more power to the individual, and have us all stand on our own feet and make choices for ourselves and our families.

At the top of the first page of the White Paper it was announced that "The Government places the viewer at the centre of broadcasting policy" and a few lines lower down that "The Government's aim is to open the doors so that individuals can choose for themselves from a much wider range of programmes and types of broadcasting." The second page explained that the Independent Television Commission will take over from the IBA and will "operate with a lighter touch."

Of course white papers merely state a Government's intentions — or what they would like us to believe are their intentions. Bills on the other hand are early drafts of proposed laws and when you turn to the Broadcasting Bill what do you find? Appointments to the board of Channel 4, hitherto decided by the IBA, will in future be vetted by the Home Secretary. Those who have watched during the 1980s as the old carefully balanced board of governors at the BBC has been steadily replaced by "Thatcherite placemen" (as one former BBC governor put it) will have little faith in this new provision as a liberalising measure designed to achieve greater choice for the viewer.

Michael Grade, Chief Executive of Channel 4 said on BBC's *Newsnight* that the only possible motive for the new proposal was a desire for political control, and Sir Richard Attenborough, Chairman of the Channel, declaring that the existing board is unanimous in regarding the proposal as "utterly unacceptable," told Ray Snoddy, the FT's broadcasting correspondent, that he would not wish to continue as chairman if it passed into law.

As for broadening our choice, the Bill provides for a whole raft of new censorship measures which can only achieve the opposite. First it proposes that the Obscene Publications Act be extended to cover broadcasting, a logical and reasonable idea. Yet it is dismaying to read Clause 145 on P103. This extends to broadcasters the sort of police scrutiny now visited upon bookshop owners, and one's heart sinks at the wording which states that any police officer above the rank of superintendent (scarcely the highest in the force) who suspects that a programme *has offended or will offend* against the Obscene Publications Act can demand that scripts, tapes and films be produced and copies made for him to take away.

Remembering the jackboot-style police raid on BBC Scotland during the *Zircon* affair (months later all the material was quietly returned when the Government could find no grounds for prosecution) and bearing in mind the worldwide joy during the last few weeks at seeing Czechs and Poles finally drive the police out of their broadcasting centres, one can have little faith in this as a way of increasing choice in Britain.

Worse, the Government has decided that it is not enough just to extend the law of the land (the Obscene Publications Act) to cover broadcasting but, disregarding their own policy of closing quangos, they are proposing the formal establishment of Lord Rees Mogg's Broadcasting Standards Council as yet another body — in addition to the BBC Board, the ITC Board, the C4 Board, and the Obscene Publications Act — to stand between broadcaster and audience and decide for us what is and what is not to our taste.

Contrary to popular belief, what the Bill does not propose is an "auction" of ITV franchises. At an auction potential buyers hear one another's bids, but under the Government's plans they will not: each will make a guess as to what the others may offer, add a bit more, seal the figure in an envelope and give it to the ITC. The process is (and I am indebted to Christopher Bland of London Weekend for the phrase which he used on that same *Newsnight*) a blind crapshoot.

Rather than broadening our choice, which the White Paper intimated, the Broadcasting Bill provides for a whole raft of new censorship measures which can only achieve the opposite

Still on *Newsnight*, Home Office minister David Mellor airily dismissed the suggestion that there was a hideous warning for Britain in the events recently occurring in Australia. There, television franchises were put up for sale and men who had made fortunes in other businesses and fancied the glamour of becoming TV barons made bids, subsequently described as "silly," which drove the paper value of broadcasting companies up to ludicrous heights. Now, predictably enough, the whole edifice is crashing in ruins. Mellor pooh poohed the idea of any lesson for Britain, saying that in Australia there had been no "quality hurdle" and no "performance bond" lodged as a hostage to fortune, against the failure to deliver the quality promised.

Perhaps not, but that does not alter the fact that here as in Australia men who have made money in beer (or skittles, come to that) may fancy the supposed prestige of becoming TV moguls and pitch the price at ludicrous levels. If that did happen they might well feel obliged to concentrate on cheap audience-maximising programmes (game shows, soap operas, studio chat, all the rubbish which is already so familiar but could become so much more so) in order to recoup their investments.

"Aha!" says the Government argument, "but if they do that we will fine them by taking away their performance bond." In other words: when one of these companies, strapped for cash thanks to the huge sums needed to buy a licence, gets into difficulties, the ITC will take away some more of its money. How, precisely, will that help the situation?

To believe in this system you need to overlook the history of British commercial television so far. When TV-am got into difficulties with its breakfast service and failed to fulfil its franchise promises concerning news and current affairs, did the IBA insist upon their fulfilment, or did they stand by while Roland Rat scurried to save the sinking ship? If the ITC is going to operate an even "lighter touch" than the IBA, it is hard to imagine what effect it can have.

Beyond all this there is another possibility which the Bill seems to ignore entirely. The Anglophone television market is (leaving aside the Chinese who do not count . . . yet) the largest in the world, thanks mainly to the vast population of the US and its wealth. British television companies offer Europeans an attractive offshore base for the production of English language programmes aimed at the global market.

Suppose your name is Berlasconi and you already own an international media conglomerate and fancy an English language base, you clearly do not compete in the blind crapshoot since you may bid too low and miss the boat or too high and pay more than necessary. (Fancy paying £950m if the next highest sealed bid was £880m.) Since you have heard that the Thatcher Government intends to make television companies subject to stock market takeover like other types of firm, you go into partnership with some British media conglomerate (Carlton Communications, say) to give you street-cred with the ITC and convince them you can jump quality hurdles like Red Rum, and then — shortly after the franchises have been "auctioned" — you make a dawn raid and take over whichever ITV company you fancy.

British viewers with a concern for the standards of programmes appearing on their screens do not need to be raving xenophobes to consider this an undesirable possibility. Nor do they need to be unduly cynical to detect hypocrisy at the heart of the Government's plans. Certainly the Bill provides for greater choice in making money out of television. But where choice for the viewer is concerned, the looming spectacles of the ageing Roman Catholic bibliophile, Lord Rees-Mogg, can be seen glinting in the darkness of censorship which gathers more thickly over Britain even as it lifts in Eastern Europe.

Christopher Dunkley

Rosemary Leach

The Health Farm

KING'S HEAD THEATRE CLUB

Rather like the diet at the sort of place here portrayed, the late Peter King's posthumously polished play starts as achingly insubstantial fare for our incredulous palates and ends up as chastely satisfying, though not precluding future theatrical soufflés in the West End or banquets at the Barbican.

The two-hander charts three annual meetings at a health farm between a buxom brace from different backgrounds. Dora is an elderly widow, lonely, chatty, not too bright, a devotee of romantic novels. Jenny is sleekly well-off, a mother of two children who respectively work in the City and study moral philosophy and jointly sound perfectly frightful. Her high-powered executive husband is losing interest in her. Dora quarrels with her adored son's wife. She smuggles forbidden tea-bags into the health farm. Jenny secretes gin which she pours into the water-jug — and from which the unwitting Dora makes a soothing cuppa in one of the play's more endearing scenes.

The second year finds each at crisis point. Jenny has gone through a spell of alcoholism; Dora is estranged from her family. The last scene finds both women adjusted and successful another year later. Dora has written a best seller; Jenny has resumed a career and has the strength to reject the penitent husband who abandoned her. But an odd epilogue which hints at Dora's senility and suggests that she may have imagined her success, or that it has come too late, dangles like a loose thread.

At first the jokes are obvious. Uneducated pulp-reader Dora is contrasted with Jenny's dogged determination to read Proust: "Has anything happened yet?" "He's remembering a lot." Dora's malapropisms (she takes dyslexia pills for heartburn) make one's hopes sink. But there are moments when real women are talking and confiding, brooding and laughing; and the author uses a technique borrowed from Peter Nichols' Joe Egg to intercut pain with humour. Dora sporadically addresses the audience in a Max Miller jacket and tie, Jenny a flat cap and red nose or a dinner jacket with George Burns cigar, to crack stand-up jokes about time-honoured Aunt Sallys: mothers-in-law, marriage, obesity, funerals, suicide. . . And these alternate with the real thing, with sufferings and misunderstanding and human misery.

Alex Marshall's production could distinguish more sharply between reality and the chorus of comic clichés, but struggles anyway against a slightly messy play which constantly threatens to go off at various angles at differing degrees of seriousness. As left at the playwright's death, two studies of very different women don't quite come together into a consistent picture. Real perceptiveness (as with Jenny's slide into alcoholism: "Years slipped by and I discovered it didn't matter so much after a gin or two") alternates with cosiness and commonplaces ("You're the daughter I never had," Dora tells her).

Tim Heywood's bright all-purpose set frames two of our most accomplished and intelligent actresses: Isla Blair, excelling at hints of hard-driven panic under Jenny's glamorous exterior, and Rosemary Leach, both touching and infuriating as Dora.

Martin Hoyle

Julie Andrews/André Previn

FESTIVAL HALL

"Julie Andrews will sing a selection of her favourite carols." Who could resist? Not we who packed the Royal Festival Hall on Monday evening. We have loved Miss Andrews since we sang alongside "Wouldn't it Be Luvverly?" on our nursery gramophone. Her poise, her decency, her well-preparedness have never faltered.

We admired Miss Andrews for selecting some carols we did not know (*The Lamb of God, The Holy Boy*), but we were relieved that some of her favourites (*It Came Upon a Midnight Clear, In the Bleak Midwinter*) were ours, too. We enjoyed the tinselly arrangements for the Royal Philharmonic Orchestra and Brighton Festival Chorus by André Previn, the conductor, and by other hands; we admired their arty nods to Britten and *The Messiah*, and we adored the old-age-pensioner's guide-to-the-orchestra passages. Sometimes we wondered nervously if Miss Andrews and Mr Previn weren't stringing us along and would soon be kicking off their shoes and hitting the Scotch. But mostly we glowed avertedly.

Miss Andrews' breathing is still splendid and steady. We know few other musical stars who can swell a note from a thread and then fine it back into nothing. But then we know Miss Andrews' classical pedigree. We cherish the 78 on which a music-hall maestro asks her what she is going to sing. "I'm going to sing the Polonaise from Ambroise Thomas's *Mignon*," says little Julie. "Oh, good," says the maestro, "that's the kind of rubbish I love." So do we. Miss Andrews' account of that number then was very pious, well-scrubbed, bristling with well-intentioned staccati. Not every note was in tune, and we have noticed that in this respect Miss Andrews's under-the-note has only grown ("tuppence a bag") with the years.

But most of all, we love her for her diction. Her every syllable lunge — pure, firm, crisp — like an icicle in the air. She approaches notes with only the most discreet of scoops, and when, for a big moment, on "slei-eigh" in *Jingle Bells*, she delivers a slurring portamento from one note to another we consider it not only a rare treat but a hurdle in her career as bold as her Cockney accent, her transvestite act, and — most nerve-wracking of all — her love scenes with Paul Newman. Her art is enriched and so are we.

We thought it a bit much, however, when Miss Andrews welcomed us to the Festival Hall, for we had already been in it before the interval to hear Mr Previn conducting the RPO in Act 2 of *The Nutcracker*. An entire act, thank heavens, not a suite. What a cornucopia of sonorities and rhythmic variety, what a range — from light divertissement to momentous grandeur. The brief oboe entry in the Mirlitons, the sudden thuds for the strings punctuating the Sugar Plum solo — these and innumerable other touches amaze more at each hearing. The RPO revelled in the many solo opportunities.

Previn judged the orchestral crescendo of the Prince's mime narration very excitingly. And the great adagio to the grand pas de deux, with its big tragic down-sweeping scales, never fails to overwhelm me. As it reaches its climax, my breathing changes, tears start in my eyes, and I am a child again.

Alastair Macaulay

Armenian State Dance/Ballets Africains

SADLER'S WELLS/CHICHESTER FESTIVAL THEATRE

"The sexism is magnificent." Were I a publicist, that's the slogan I'd use for the Armenian State Dance Company.

The women, with their long plaits and head-dresses, pitter-patter along in tiny steps in long dresses, like Versailles ladies or Daleks, whereas the men, in tights or trousers and soft boots, cavort through a far broader vocabulary of steps. Miniscule though the women's steps are, they have delicacy and variety. (The feet often turn in and out in quickly alternating latticework as the dancer travels sideways.) There is pride and elegance in these women's carriage, and particularly eloquent beauty in the arms. The men's legwork is based in a very buoyant use of the foot, the heel kept often far from the floor.

The company closed its first tour of the UK with six performances at Sadler's Wells last weekend, one of which I saw. Occasionally, in some Armenia-for-tourists items in period costumes, the distinction of gender roles was exaggerated and cheepened. The guys became swaggart braggadocios, the gals susceptible coquettes. The more traditional the material, however, the greater its interest — in dance and human terms.

Ballet fans could see many echoes, some of which are deliberate. When the men start to pound on the spot in jumps or to frame their leader in admiring formations, the resemblance to Yury Gregorovich's Bolshoy choreography was unmissable. However, though the Armenian men have less stamina and are less handsomely trained than the Bolshoy, theirs dances are all less repetitious and monolithic; and the best of them have far more finesse. The jauntiness of those toes and insteps is delicious. There are several overlaps, and similarities to the better-known Georgian State Dances here — whose programmes, more effectively structured, feel less bitty. Though these men don't dance on the knuckles of their toes, as Georgians do, they hurtle round the stage on their knees, hurl knives and jump over their own feet. The women, in four vertical rows, turn on the spot or wave their arms, like Shades in *La Bayadère*.

In Les Ballets Africains, which come from Guinea and which danced for a week in Chichester, what is touching, by contrast, is sheer innocence. And the most exciting aspects are also the most exotic. The concept of rhythm and important is unlike the indigenous dance styles of any other continent. There's no element of repose, and no concern with elegance. Knees, feet, posture in general, are all unstretched. The bare feet batter, the strong backs throb. Music and dance start at a pitch that in any other style would constitute Dionysiac frenzy and they keep at it non-stop. (The appeal of this lies partly in its distant link to the jazz and post-jazz tradition in our modern western culture.)

The most marvellous element is the music. This, though mainly aimed to stimulate dancing, far surpasses it in rhythmic complexity and brilliance. The wide array of percussion sonorities and the dense overlap of separate metric patterns are intensely interesting. And the occasional contributions of singing and flutes are vivid.

In the charming African Dewn episode, a man (the Griot) walks across the stage, plucking music from a 21-string instrument that juts from his loins like a big phallic banjo. The womenfolk of his tribe watch admiringly; one is bold enough to pluck and stroke it. Could any other culture present this scene with such lack of naughtiness or embarrassment? The innocence is cherishable, the music more so. The instrument, which has an unbroken tradition of over seven centuries, is called a Kora; and truly it's notes are heavenly.

Alastair Macaulay

Robin Hood and Babes in the Wood

HACKNEY EMPIRE

Peter Duncan's elision of two classic pantomime stories is based on a playful historicity, which makes the humble sheriff of Nottingham into e crook-backed schemer, dastardly to the Babes on one hand and to the handsome, heroic Robin on the other. This enables e scattering of literary jokes ("My kingdom for a horse? You must be kidding") and full exploitation of the erstwhile Flying Picket Brian Hibbard, who is growing into the sort of pantomime stalwart prodncers would kill for. Not only is he blessed with features etched with brimstone and treacle, but he has sense of comedy that is invaluable for cake-making, and he can lead a boo-hiss brigade at 40 paces, not to mention his ability to belt out the Pickets perennial *Only You* as if oblivious to the shambolic acappella backing from the supporting cast.

Kevin Wood's production is cast with a weather eye to the composition of the Hackney andience, with a strapping dame from Oscar James and e strapping Marion from Buki Armstrong, whose legs are firmly concealed beneath yards of Lincoln green, and whose only clearly discernible fault is falling for Tony Hawks' stuffed jerkin of a Robin.

The comedy as yet needs tightening up But the show is unusually strong on the set-pieces — notably a skeleton dance which is bewitchingly performed by the young blades of the Peggy O'Farrell Stage School. Claire Woyka, controlling the action from e glittering box at the side of this magnificent old Victorian music hall, makes a captivating and sweet-singing Spirit of Greenwood, who carries the conviction that this is magic, not just a series of cheap tricks.

The impression is reinforced by Helga Wood's painterly sets, which for once give the impression of a designer enchanted with the possibilities of her work rather than bored with the limitations. The most refreshing thing about the evening is the sense of childish imagination being given pride of place, whether that means marvelling at the colours of Sherwood Forest, envying the kitsch costumes of the diminutive Janet and John or booing the wicked ways of of the scurrilous sheriff.

Claire Armitstead

ARTS GUIDE

December 8-14

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has four or five marvellous songs and Elaine Paige failing to emulate Ethel Merman. Jerry Zak's desperately bright production comes from the Lincoln Center in New York and is undemanding fare (734 8951, cc 836 2428).

Jeffrey Bernard Is Unwell (Apollo). Brilliant performance by Peter O'Toole as an alcoholic journalist who embodies a Falstaffian, nay-saying life force while committing public suicide by vodka. Keith Waterhouse has stitched e fine play, the season's highlight, from Bernard's own writing. Ned Sherrin directs (437 2663).

The Good Person of Sichuan (Olivier). Magnificent National Theatre revival by wunderkind Deborah Warner of Brecht's greatparable of moral ambiguity about e Chinese prostitute who canonly do good by adopting a vicious disguise. If poverty is not combated by political systems, what can an individual's compassion do? Witty new translation by Michael Hofmann. Fiona Shaw leads a fine cast in a play new-minted for the 1990s. Dec19-21, Dec 28-Jan 3, Jan 11-18, Jan 29-Feb 3 (928 2252).

A Little Night Music (Piccadilly). Fine revival by Ian Judge, imported from Chichester, of Sondheim's 1973 schlagobers version of a Bergman film. A beautiful score, composed mostly in waltz time, is touchingly performed by Lila Kedrova, Dorothy Tutin (her best work in years), Peter McEnery and Susan Hampshire (867 1118).

Another Time (Wyndham's). New Ronald Harwood play, directed by Elijah Moshinsky, about a white South African family in Cape Town and Maida Vale. Albert Finney plays father and concert pianist son across 35 years, suggesting that talent is a means of escape and a reason for not going back. Janet Suzman and Sara Kestelman are electrifying in support (867 1116).

M. Butterfly (Shaftesbury). Peter Egan has taken over from Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York; the play is not very good but still worth seeing (379 5399).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of e successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Gypsy (St James). This 30th anniversary production does more than revive a rich, vivid musical; it also introduces a new belter in the Merman tradition, Tyne Daly, as the bossy, tireless and tuneful Rose, who shamelessly leads her daughter into burlesque while rejecting a personal life for herself. (246 0102).

Grand Hotel (Martin Beck). Tommy Tune, Broadway's present musical doctor, directs this remake of the Garbo film to at least shake the bones of this inert depiction of lives crisscrossing in an elegant, but somewhat random setting (246 0102).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical in contrast with the elaborate original a decade ago emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an abullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as enditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0230).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

A Christmas Carol (Goodman). For the 12th year, the Goodman company does its holiday thing, with William J. Norris as Scrooge for the 11th year, but a new director, Steve Scott, and new adaptation by Tom Creamer promise to refresh the familiar. Ends Dec 30 (443 3800).

Tokyo

Kabuki. At the National Theatre (265 7411). *Hokaibo* (also known as *Sumidagawa*). Living National Treasure, Baiko, leads a top-rank cast in a lively lowlife piece about a con-man who disguises himself as a priest. At Kabuki-za (541 3131): two mixed programmes, at 11am and 4.30pm, featuring mainly younger kabuki actors. Both theatres have helpful English programmes and earphone commentary.

Bunraku. The sophisticated puppet theatre is a major element in Japan's cultural heritage. At 5pm: extracts from *Yoshitsune Senbonzakura (The Thousand Cherry Trees)*, a historical drama of mediaeval times. At 11am and 2pm: *Heike Nyogo ga Shima*, by Chikamatsu Monzaemon, sometimes called the Shakespeare of Japan. Preceded by a lecture/demonstration. Since the matinees are intended mainly for schoolchildren, expect the audience to be boisterous. Earphone commentary in English available at the theatre. Opens Thur.

Body Wars 2. A science fiction allegory about power, performed by energetic fringe company, Daisan Erotica. Honda Theatre, Shimo-Kitazawa (869 1127).

SALEROOM

Tang horse makes £3.7m

A large Tang horse, 26¾ inches high, with an amiable expression and elaborate green trappings, sold for £3.74m at Sotheby's yesterday to Shimojo, the Tokyo dealer. It was a record auction price for any Chinese work of art, and far exceeded the expectations of Sotheby's, and its vendor, the British Rail Pension Fund, which had placed e top estimate of £1m. on the pottery horse.

It is a horse with a history. It was probably placed in the grave of e nobleman around 750 AD and as e result would not be to the taste of most Chinese collectors who retain a supersititious dislike of grave goods. While on show in Hong Kong last month, the horse was stolen from a warehouse and only recovered after a tip off, when it was found to have attracted e chip.

The escapade does not seem to have deterred bidders. The price was more than double the previous best for anything Chinese. Mr Shimojo was delighted "I'm so lucky to have bought it," he said after the sale. The euctioneer, and Chinese expert, Mr Julian Thompson declared "the price paid for the horse is a new landmark in the Chinese art market."

The British Rail Pension Fund must be particularly happy. A flood of grave goods from China in recent years has depressed the demand for some of the items it bought in the 1970s when it diverted e small amount of its cash into works of art as e hedge against a depressed Stock Market. It sold its later Chinese collection, mainly Ming blue and white, very successfully in Hong Kong earlier this year for over £11m but e modest estimate of around £4m had been placed on the 96 lots offered yesterday. It included some items which had actually fallen in value.

But they brought in £11.7m, with just 3.58 per cent unsold. The Fund had had paid around £150,000 for the horse in 1978. The Japanese saved the day. Mr Shimojo paid £1.32m for a vase of the Northern Song Dynasty (around 1050 AD), creamy white with brown decoration, and £825,000 for a similar vessel.

The second most important item in the sale, a large Buddhist stele, or shrine, of about 550 AD, also went to Japan, to Hirano the Tokyo dealer, but Eskenazi of London paid £715,000 for a bronze wine vessel of around 1100 BC.

Antony Thorncroft

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There is a better way

THE FIRST batch of Vietnamese boat people to be forcibly repatriated from Hong Kong was flown out yesterday amid predictable international outrage.

They were removed, some screaming for help, by police in riot gear and whisked away to an uncertain and unmonitored fate in Vietnam. It was a shaming spectacle. It is not made the less shameful by the blatant hypocrisy of much of the criticism, notably from the US.

The forced repatriation programme should be halted pending the meeting of the steering committee of the international conference on Indochinese refugees in Geneva next month. This should be convened in plenary session charged with finding short and long term alternatives to forced repatriation.

The first group to be forced out was carefully chosen; there were only eight adult men. There were tears but no reported violence. This cannot be guaranteed in future. Of the 57,000 boat people now in Hong Kong around 40,000 are unlikely to be classified as political refugees. To repatriate them all could take years and possibly involve suicide, violent resistance and a prolonged international public relations disaster for Britain.

Another way

There must be another way and it is not the sole responsibility of Britain to find it. The priorities for January's meeting are to agree that forced repatriation of Vietnamese already in Hong Kong should end; to find a way of preventing more boat people from adding to the already intolerable burden in Hong Kong when the new "sailing season" begins in March; to find a way of ensuring full, open, fair and, above all, speedy screening of new arrivals; to agree a generous international resettlement programme for those already in Hong Kong; to accept Vietnam back into the international economic community.

People in Vietnam must be made to understand that the perilous boat trip, during which half will perish, leads nowhere. At the same time those who have already risked their lives and have been housed in intolerable conditions should not be sent back unless they volunteer to go.

One answer is more resources, under full UN control, for screening – a process currently described by the respected Lawyers Committee on Human Rights as biassed and careless – so that new arrivals can be processed quickly. All would then be returned home fast – within say 72 hours – except those qualifying for asylum and resettlement under the UN Convention on Refugees: "No contracting state shall expel or return a refugee in any manner whatsoever to the frontiers of territories where his life or freedom would be threatened on account of his race, religion, membership of a particular social group or political opinion."

Generosity needed

That leaves the 40,000 already in Hong Kong but rejected as genuine refugees. A burst of international generosity is required. Britain could lead the way by adopting a less mean policy. Of the 110,000 boat people resettled via Hong Kong since 1975 Britain has taken the lowest proportion of any major western country: the US has taken 50 per cent, Britain less than 3 per cent. Britain could make a substantial offer at January's meeting, having negotiated beforehand to ensure that others follow.

Vietnam too needs to play its part by allowing UN monitoring teams full access and by co-operating to ensure a rapid return of future boat people. Hanoi can be tempted with the offer of a full return to the world economic community, permitting access to soft loans and international economic assistance. This requires both Britain and the US to drop their vetoes on economic assistance to Vietnam which once had to do with Vietnam's occupation of Cambodia but now have more to do with spite and Vietnam-phobia.

Britain has been forced into a near impossible position over the boat people. More forcible repatriation can be avoided, but only with international help. The consequences of not resolving this issue next month will be a shameful indictment which will not fall on Britain alone.

The Baker Doctrine

PRESIDENT GEORGE Bush was criticized, by some, for his relatively low-key reaction when the Berlin wall was opened a month ago. His predecessor, it was suggested, would have rushed immediately to the scene for one of the great photo-calls of his career.

Most Europeans were probably grateful that Mr Bush did not react like that. Indeed, Mr Bush has given Europeans quite a few reasons to be grateful for his presence in the White House. He has not been impervious to the changes happening in Europe, but has given himself time to think before reacting to them. He has also shown unusual deference to America's allies, which is not purely a matter of tact; it also reflects a sense that the US is entering a period of retrenchment, and that allies which in the past were in acute need of US help and protection are now better able to look after themselves.

That train of thought, however, has set some alarm bells ringing in Europe, especially since Mr Bush's Defence Secretary, Mr Richard Cheney, began putting figures on the savings he hopes to make in military expenditure, and mentioning troop cuts in Europe in that context. Yesterday's Berlin speech by the Secretary of State, Mr James Baker, should go some way to calm such fears.

Self-determination

Not that Mr Baker went to Berlin simply to reaffirm the US's determination to defend the status quo. That message is no longer what Berliners want to hear. West Berlin is no longer a besieged city. East Germans are recovering their freedom, and the contradiction between that and any attempt to enforce the continued division of Germany is more and more apparent. "Self-determination," said Mr Baker, "must be pursued without prejudice to its outcome." But in the next breath he added that "unification should occur in the context of Germany's continued commitment to Nato."

It is not the first time he has said that: perhaps it should be christened the *Baker Doctrine*. But, wisely, he has so far refrained from spelling out too clearly what it must mean: that the Soviet Union will be asked to accept the incorporation into a Nato country of the state which was its strongest ally.

Mr Baker certainly knows that that is asking quite a lot, which is one reason why he goes on to say that "in the interests of general European stability, moves toward unification must be peaceful, gradual, and part of a step-by-step process." Clearly he also realises that it can only happen if Nato's role and nature are transformed, so that the Soviet Union no longer has any reason to regard it as even potentially hostile. It must, he says, become part of "a new architecture . . . that can overcome the division of Europe and bridge the Atlantic Ocean."

New institutions

"Nato will continue," says Mr Baker, "whatever security relationships the governments of Eastern Europe choose," in other words whatever happens to the Warsaw Pact. But he also envisages new institutions reaching beyond Nato: institutions deriving from the Helsinki Process, in which of course the US and Canada are full participants. He suggests that multi-party elections should be incorporated into the Helsinki definition of human rights (another huge pill for Mr Gorbachev to swallow, but one that may soon be forced on him by his own people), and hints that this could lead to a set of pan-European institutions which would be interparliamentary as well as intergovernmental. In short, he accepts Mr Gorbachev's metaphor of a Common European House, but firmly asserts America's intention to be a co-founder, co-proprietor and co-inhabitant.

Finally, Mr Baker repeats Mr Bush's generous words about the role of the European Community, and goes on to propose "a strengthened set of institutional and consultative links" between it and the US. It is more and more clear that the Bush administration wishes the EC to function as America's main political as well as economic partner in Europe. Mr Bush, in fact, is showing the "vision" he has often been accused of lacking. The EC and its member states must not fail to respond in kind.

FT correspondents consider what is happening to the Vietnamese boat people

Rendezvous in Hanoi

Even as the Hong Kong authorities were preparing for the first forcible repatriation of Vietnamese boat people, Mr Nguyen Co Thach, Vietnam's Foreign Minister, was telling journalists in Hanoi that his government would turn back any aircraft carrying such people. "They will not be allowed into our territory," he declared. "They can fly on, or turn round and go back to Hong Kong."

His comments further added to the haze of imprecision, disinformation and sheer confusion which surrounds the issue of forcible repatriation. Vietnamese officials revealed just over a fortnight ago that a deal had been *signed with the British government* covering this first flight. Britain they said would pay $620 a head, five days in advance, with the balance to be adjusted subsequently depending on how many people actually arrived. Further flights would have to be negotiated seperately, they said, adding with a smile that inflation was still *something of a problem* in Vietnam.

Vietnamese officials also like to differentiate between those refugees whose first choice it is to come home; those who would prefer to settle elsewhere but would rather come home than spend their rest of their life in a refugee camp; and the final category that do not wish to return under any circumstances. It is fair to assume that their reception in Vietnam will depend to a large extent into which category they fall.

Staff working with the UN High Commissioner for Refugees, who accompanied the first flight from the Philippines of boat people who returned voluntarily, spoke of the huge excitement and cheers of delight when the *coast of Vietnam* was spotted. It seems that the government will be helping to resettle them and it has been agreed that they will be subsequently visited by UNHCR officials.

The next two categories offer more problems. In a country where unemployment is running at well over 20 per cent, another substantial part of the workforce is underemployed, and troops recently withdrawn from Cambodia are being demobilised, the last thing the government wants is more mouths to feed and jobs to find. Unless the men who returned yesterday have particular skills, or strong family connections, their chances of employment must be slim.

Much will depend on where they came from originally, where the nucleus of their family resides and how long they have been out of Vietnam. A refugee from Ho Chi Minh City who has been away for more than two years may even be impressed by the economic strides it has taken since the government began to offer some encouragement to the private sector. There are now a few private cars on the street and motorbikes are plentiful. The black market is booming. People still sleep on the streets at night and rats stalk the lobbies of hotels, but a little of the former commercial bustle of Saigon is beginning to return.

Refugees from rural areas, where 70 per cent of the population lives on subsistence agriculture, will inevitably see less change. However a reform of pricing policies has this year led to Vietnam appearing from nowhere to become the world's fourth largest rice exporter. At least 1m tonnes had been shipped abroad by mid-November and consequently there should be a little extra cash in some farmers' pockets.

The most tragic cases will inevitably be those who spent all their savings to flee Vietnam, who return with nothing to a family which does not welcome them, and those the government regards as criminals.

Some refugees being sent back are sure to be regarded as having failed by their families. This particularly includes those children known as "anchors" who were deliberately placed on boats by their parents in the hope that they would quickly be resettled in the US and provide a bridge for others to follow. Letters received by these children in the refugee camps testify to the intensity of the pressure they are under.

All of this can be grist to the mill of a government which is no slouch when it comes to the packaging of information and which appreciates that on this issue it has the opportunity to exert some pressure on part of the industrialised world.

The Vietnamese government will seek to show itself in a variety of lights; firm, reasonable, fair, humane but forced into accepting people who have no future in the country without western economic aid.

Information on the fate of the returning refugees is likely to be tailored to this end. It will also be designed to ensure, if possible, that Vietnam does not have to accept more than a small percentage of those remaining in Hong Kong. It has made a gesture with one flight.

Further gestures may get more expensive and the British government should expect that the publicity surrounding them may have a correspondingly greater impact on public opinion. The boat people remain part of a much larger game which, with the changes in eastern Europe, has taken on greater significance for an ageing Vietnamese leadership determined to prove the superiority of Marxism-Leninism. Nguyen Van Linh, General Secretary of the Vietnamese Communist Party, said in August: "We resolutely refuse to allow ourselves to be duped by the cunning schemes of the imperialists and reactionaries of all stripes."

Roger Matthews

Repatriation causes Hong Kong few regrets

Every day an average of about 60 illegal immigrants from mainland China are handcuffed and bundled back across the border *from Hong Kong* by lorry into the hands of waiting Chinese guards. The world is not shocked and there is usually no controversy – unless the issue has wider diplomatic consequences such as those which followed the June crisis in Peking.

Both China and Hong Kong accept it as a logical way of coping with a *problem created by people living* under Peking's communist regime who want to live in capitalist Hong Kong. But Hong Kong, with a population density of 5,355 per sq km, cannot accommodate them all. Hong Kongers – themselves nearly all refugees from the mainland – fear that the 60 would become thousands if the doors were opened a *little*. At the same time, they have always resented the way that the Vietnamese are allowed in and housed whereas the Chinese illegal immigrants – who are often relations of people living in Hong Kong – are sent back. So they have few qualms about forcibly sending Vietnamese boat people back to their homes.

There were, therefore, no regrets when a Cathay Pacific Airways Tristar yesterday took off into the dawn from Hong Kong's Kai Tak airport, flying in the face of world opinion with *its involuntary passengers*: 51 unhappy men, women and children bound for Hanoi.

Since 1975, when the first 3,740 arrived on a freighter, 170,000 boat people have entered Hong Kong. In 1982, the government tried to deter new arrivals by putting them into closed camps behind barbed wire. *That failed.*

So when 1987's arrival figure of 12,900 grew last year to 21,300, the government toughened the policy further and stopped recognising all arrivals as genuine refugees qualifying for resettlement in developed countries. Instead, it introduced screening to separate genuine refugees (about 10 per cent *of the total) from illegal* immigrants, dubbed economic migrants.

But still the numbers have grown; 34,069 have arrived this year. Hopes that voluntary repatriation which started in March would act as a brake have also been dashed. Only 640 people have voluntarily gone so far, plus another *250 due out later this month.*

The fear now is that when the tides and winds turn favourable in about three months' time, 30,000 more will come unless there is a new deterrent. Mandatory repatriation is intended to be that deterrent and Hong Kong has been urging the UK for several months to start before Christmas to give time for the message to sink in in Vietnam.

"Our comminity won't stand for it any longer. We cannot accept another flood of boat people next year so they must be forced to go home," says Mr *Allen Lee, senior member of the Legislative* Council which fears social unrest and is not willing to vote any more funds for boat people camps. "But I know that we have an international image problem and we must work on that."

A few months ago it seemed extremely unlikely that the British government would ever agree to the mandatory repatriation. It is keenly sensitive to its undemocratic colonial rule and it leaves the Hong Kong government to run the territory on a basis of consensus. Rarely does it force its colonial will on the people.

Until yesterday morning, however, it was the colonial will that had prevailed, with Britain's social conscience over-riding the increasingly strident wishes of the local population who want to see the boat people go home as quickly as possible.

Hong Kong, which thrives because of its image and confidence as a free, open place to do business, appears to have soured its reputation just at the moment when it most needs world support. Since the June upheavals in China, it has been campaigning for the UK and other countries to give passports to as many of its people as possible so that they have a bolt hole *after China regains sovereignty over* the colony in 1997. There is now a fear that sympathy for the people of Hong Kong will diminish because of the repatriation policy.

Mrs Thatcher's government has been led towards mandatory repatriation since China's June crisis which generated angry criticism that the UK was not properly looking after the interests of its last major colony. Mrs Thatcher knows that she cannot assuage that anger by meeting Hong Kong's aspirations on passports; nor can she force China to put more democratic reforms in Hong Kong's post-1997 Basic Law which is being drafted this week in the southern Chinese city of Guangzhou. But she could deliver on the boat people – and she has.

The repatriation will certainly take longer than a year. There are more than 56,000 Vietnamese in Hong Kong camps. About 12,000 arrived before the screening policy was introduced in June last year and thus qualify for resettlement as genuine refugees. Of the 44,000 who have arrived since the policy change, only about 10 per cent are expected to qualify as refugees. That leaves about 40,000 to be repatriated, voluntarily or mandatorily.

The government hopes that voluntary repatriation, which has built up much more slowly than had been hoped, will continue alongside the new mandatory programme.

But yesterday's plane load of 26 children, 17 women and eight men was a carefully selected soft group, unlikely to cause trouble. Future groups may not be so *docile* and there is a risk of violent unrest in the camps.

The one big country openly to support Hong Kong yesterday was China, which has said it expects all the Vietnamese to be gone by 1997. Boat people are one problem it does not want to inherit as the price of regaining sovereignty.

John Elliott

OBSERVER

BOC's silent knight

■ He can't use the title, but Richard Giordano, chairman and chief executive of the BOC Group, is now an honorary "Sir".

Other Americans have been similarly honoured. Caspar Weinberger was "knighted" for his services to Britain when he was US Defence Secretary during the Falklands War. The former US President, Ronald Reagan, received an even higher order. And John Paul Getty III was honoured for his services to the arts.

Giordano, however, is the *first American industrialist* to be rewarded in this way. He was "honoured and surprised", he said yesterday as he went to receive the award from Nicholas Ridley, the Secretary of State for Trade and Industry.

It is all a bit odd because Giordano is really a British import, and an initially reluctant one at that. He was chief executive of the American firm Airco when British Oxygen took it over in a hostile bid in 1978. He opposed the bid very strongly himself.

After looking round for *something else to do, he says* that he found that a job with BOC in Britain was the best on offer. Since then he has never looked back, and has been frequently cited as the highest paid businessman in the country, though in recent years he has been overtaken by people like Sir Ralph Halpern and Lord Hanson.

One of his specialities has been "de-diversification". *BOC's work force in Britain* has been more than cut in half and in the early years he disposed of 25 of the group's businesses. He says that his philosophy has been justified by events.

Giordano is only 55, although he has been at BOC almost as long as Mrs Thatcher has been Prime Minister. He said yesterday that he expects "to go on and on". The BOC retirement age is 65. He has given no thought to where he may retire in the end, though "it may be to more than one place." He remains enthusiastic about Britain: "The 1980s were a dynamic decade for business – more than in other countries," and he is "not as gloomy as many" about a possible recession.

In future reference books, he will appear as Richard Vincent Giordano, KBE. The Sir is silent.

Sports report

■ British rugby players defeated a World XV at Twickenham yesterday. The World team was composed of five Australians, two Americans, two South Africans, a Zimbabwean, an Irishman, and four Britons, and was otherwise known as Oxford University. The British side, called Cambridge University, was made up largely of English and Welshmen.

The 108th Varsity match was *notable for being a sell-out* (51,000), for the fact that ten of the Oxford team are at what until recently were the women's colleges of St Anne's and Lady Margaret Hall, and for the fact that two thirds of the players were post-graduates.

The Twickenham bars were closed before the game to deter rugby hooliganism, but there was much of the traditional jollity around the picnic tables *in the West car park*. Cambridge won 22-13.

The Wall, Inc

■ The East Berlin Communist Party newspaper, Berliner Zeitung, has published a reader's letter advocating a more capitalist approach by the East German authorities to the Berlin Wall.

"Portside Out, Starboard Home."

The reader, Horst Richter, notes that chunks of the Wall are being broken off by "clever" West Berliners, packaged, and sold as far away as the US "for convertible currency". Would it be "dishonourable", he asks to take the *rubble, seal it in plastic bags* and include a "guarantee of authenticity" bearing the state emblem? "We must learn more quickly from the West how, swiftly and correctly do a deal out of fads, fashions and the enthusiasm of collectors."

Meanwhile, East German TV has agreed to produce a special film of the building of the Wall in a joint production with West German television.

Heath's aid

■ Why Edward Heath? "Because he has stature, because he is a friend of Nigeria and has been there three times in the last three years," says George Dove-Edwin, the Nigerian High Commissioner in London. And, he might have added, because he can still raise money.

Heath has agreed to launch the Nigeria Guinea Worm Eradication Fund in London this evening. The Guinea Worm is a water-borne parasite, found in West Africa, which penetrates the victim's intestinal wall and can have fatal effects.

The worm, however, can be eliminated, simply by teaching people to boil their drinking water, by treating water supplies, and by creating safe sources, like boreholes. Just as smallpox was officially eradicated earlier this decade,the aim now is to get rid of the worm by 1995.

Take the Floor

■ Social breakthrough for James Capel: they are the first stockbrokers to be allowed to give a party on the Stock Exchange floor. The derivatives group of the firm will hold a reception for its clients there this evening. More of a hop perhaps; there will also be a dance band.

A Stock Exchange spokesman confirmed that it was a new development. The Royal Shakespeare Company gave a reception on the floor some six years ago, but that was in aid of sponsorship and was quite different.

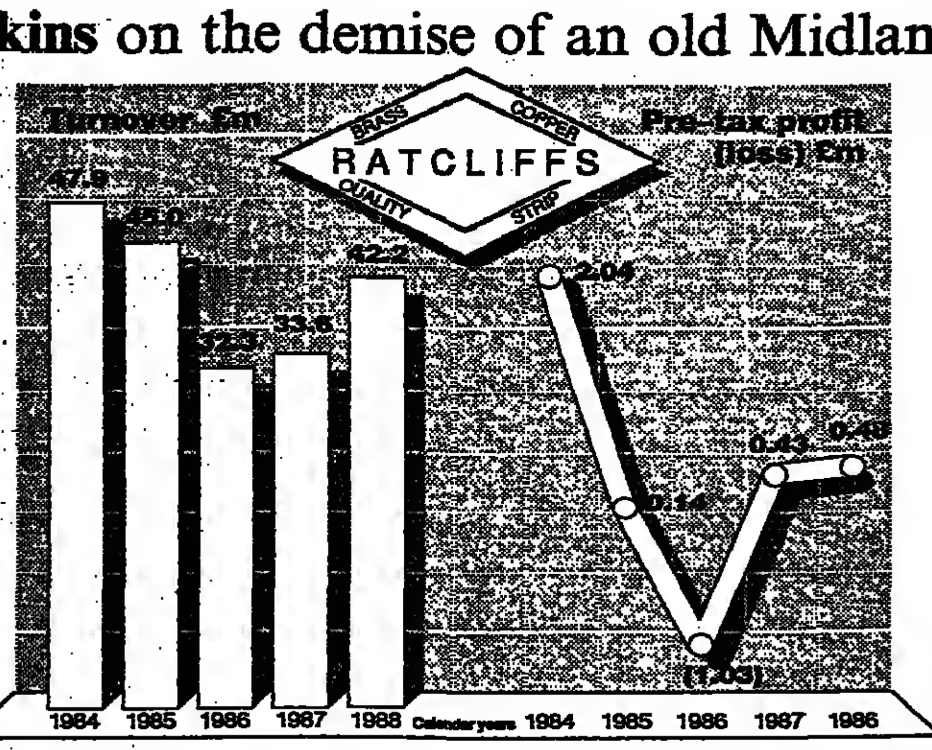
Will the James Capel party set a precedent? Quite possibly. "We're a bit concerned about the equipment," the spokesmen said. "But basically it's switched off at night, the cleaners come in around 5 pm, then the floor is empty." Sounds like a recipe for making money.

Convergence

■ A Russian went to visit the US and on his return to Moscow was asked what New York was like. Well, he said, its much the same as here. How can that be? asked his friends. In the States, he said, you can buy anything you like for dollars, and nothing for roubles.

Richard Tomkins on the demise of an old Midlands company

Trapped in a time warp



The Black Country – the grimy heart of traditional manufacturing industry in Britain's West Midlands – has grown accustomed to factory closures over the last decade or so. All the same, there was something faintly bizarre about last month's announcement that Ratcliffs (Great Bridge), a Black Country brass and copper rolling mill, was to close on December 21 with the loss of 282 jobs.

First, the decision came just seven months after the Ratcliff family had yielded two centuries of control over the company after a £12.5m management buy-in. Second, the new management blamed the closure on the shopfloor employees' refusal to drop out-dated working practices – an explanation remarkable for the fact that it earned a ringing endorsement from the employees' own trade union.

How was it, then, that a buy-in could go so badly wrong so soon? Was it indeed a case of the British disease – a throwback to the days when that phrase symbolised the destruction of jobs by bloody-minded workers refusing to adapt to change?

In a sense, the scene was set for a confrontation from the day the buy-in team arrived. Although the company was listed on the London stock market, it had been run by six generations of the Ratcliff dynasty, who had made few concessions to modern working practices.

Executive chairman at the time of the takeover was Mr Peter Ratcliff, known to the workers as "Mr Peter" who was still putting in a five-day week at the age of 75. Insiders relate how this charismatic individual ruled the company like a 19th-century mill owner, personally intervening on every issue from global strategy to the thickness of the bread in the works canteen.

Mr Ratcliff had also declined to expunge a wide range of costly conditions of employment that had emerged in Ratcliffs in the 1960s and 1970s.

The worst of these were the out-dated "stint" systems of working still in use on the shopfloor. This meant that instead of working a set number of hours each day, or "clock-to-clock," employees did a stint consisting of a measured amount of work, then whiled away the hours till their shift ended.

Conditions like these would have been insupportable even if the company was busy, but it was not. Ratcliffs' speciality was in rolling the copper strip used for making the fins of car radiators, and this market was under attack: first, from the severe competition presented by more efficient European suppliers, and second, from substitution by aluminium – harder to work than copper, but cheaper.

Ratcliffs had retrenched, closing down part of the Great Bridge site and cutting the workforce back from around 900 in the 1970s. Even so, the company was losing money: and only the profits from its Canadian subsidiary – the product of an ambitious move into the North American market by Mr Ratcliff in 1953 – enabled the group to show a modest pre-tax profit of £476,000 (£425,000) in 1988.

The combination of Ratcliffs' financial difficulties and its status as a quoted company had inevitably attracted predators but the Ratcliffs, who still controlled 55 per cent of the company's shares, had rebuffed them.

Still, something had to happen. The Great Bridge plant was haemorrhaging badly. Meanwhile Mr Ratcliff was long past retirement age, and his son David, although a well-liked director of the company, was not widely seen as an obvious successor.

The solution presented itself in the shape of Mr Michael Hearn, a former Aluminium Wire and Cable executive who had become well known for his part in rescuing Servis, the West Midlands based washing machine manufacturer. At 61, Mr Hearn was looking for a fresh challenge, so with backing from Grosvenor Venture Managers, CIN Venture Managers and Scandinavian Bank, he approached the Ratcliff family and won them over with a cash offer of 260p a share – a price that looked breathtakingly generous at 96 times the previous year's earnings.

Mr Hearn's business plan had two immediate aims. One was to make Ratcliffs' products more competitive by cutting costs, and the other was to increase turnover on the Continent by establishing the company as a second-line supplier.

Time, however, was not on his side. The buy-out had been financed almost entirely by debt. In addition, Ratcliffs' trading was financed by heavy overdrafts with the clearing banks. Meanwhile, a pick-up in business, predicted in the 1988 annual report, was showing no signs of materialising.

Mr Hearn, setting his feet under Mr Ratcliff's desk, was unprepared for the archaic working conditions at Great Bridge. Unfazed he launched negotiations with the workers' shop stewards and with Mr Terry Askey, Dudley district secretary of their union, the Transport and General Workers. The early negotiations were constructive, with the union representatives accepting that more work would have to be done by fewer people. They accepted 60 redundancies and agreed in principle that the remaining workers would fill the gap by working clock-to-clock, as long as they did not suffer a fall in pay.

Mr Hearn called in management consultants to conduct a work study and drew up a pay and productivity deal. The workers rejected it overwhelmingly because they believed it would result in lower pay; but significantly, they agreed to give the package a month's trial to see how it worked, subject to the preservation of the status quo on other conditions of employment.

Then suddenly, the house of cards collapsed. There are several versions as to why, although two factors cannot have helped: one, a difference of opinion that emerged between Mr Hearn, Mr Askey and the shop stewards over what had been meant by the status quo; and the other, the management's ill-timed announcement on the eve of the trial period that the works would be going onto short time.

In any event, the shop stewards, angry at the turn of events, called off a scheduled negotiating session. Mr Hearn then said that Ratcliffs would close if a deal was not quickly reached; Mr Askey of the T & G tried to re-start talks with Mr Hearn; the stewards resigned in protest; and the workers signed a petition saying Mr Askey was not to negotiate for them.

Meanwhile Ratcliffs' losses, far from diminishing, had reached £1.2m in the 10 months to October, and the banks were nearing a state of apoplexy. The board decided it was time to pull the plug.

Since then, the search has been on for a scapegoat. Mr Hearn and Mr Askey have both suggested that the shopfloor employees were too set in their ways to accept new working methods, but this sits oddly with the fact that the workers voted to give the pay and productivity deal a trial run. Most of those coming out of the factory gates at Great Bridge seem genuinely saddened and angry at the turn of events.

The negotiators themselves must bear part of the blame: it was they, after all, who allowed the talks to break down. Mr Norman Woodley, chief shop steward, must – and does – accept a degree of responsibility for having called off the negotiations at a crucial stage. Mr Askey allowed the issue of status quo to be fudged. And Mr Hearn was criticised by the union side for having conducted the negotiations in an atmosphere of pressure and confrontation.

It is probably fairer to conclude that Ratcliffs was never a suitable candidate for a buy-in in the first place. The company had been trapped in a time warp and the changes needed to bring it into the modern world were too drastic to be secured swiftly. Mr Hearn's arrangements with the banks, however, did not allow the luxury of patience.

The Czechoslovak economy

The evolutionary approach

By Vaclav Klaus and Tomas Jezek

In the past 40 years, Czechoslovakia has moved from a command to a "mixed" economy. This has been achieved not through explicit reforms, but through quiet self-evolution. Two distinct phases in this evolution can be distinguished.

From 1948, genuine central planning more or less prevailed. The central planners, backed by ambitious politicians and by a centralism-supporting ideology, were on the offensive. After the nationalisation of private property they succeeded in assembling enormous economic resources and in using them for the grandiose restructuring plans. We might say that the early "restructuring" phase was similar to the textbook model of a centrally planned economy.

But the situation started to change. In a fairly industrialised country like Czechoslovakia the first phase lasted no longer than a decade (or two), whereas in some less developed countries it may have lasted longer. Two phenomena reinforced one another during the transitional period. On the one hand drastic, accelerated, totally irrational forced industrialisation exhausted all free resources. There was suddenly nothing to restructure, all economic factors were employed, the room for manoeuvring and for generous redistribution was considerably diminished, the planners lost their only comparative advantage. In the official terminology, "extensive growth" came to an end.

On the other hand, the central planners were very limited in their data-processing capacity and were not able to deal effectively with small firms; they needed big firms as their necessary counterpart. Big, monopolistic firms became aware of their informational superiority and started to use their newly achieved power to dictate plans to the central planners. The resulting "defensive" phase was very different from the textbook model. For more than two decades Czechoslovakia experienced a mere "playing at planning." These planning games were sometimes co-operative, sometimes not, but were very costly in terms of social welfare.

Our interpretation of the existing system suggests there is no other way of improving it than by an evolutionary approach. In our understanding true liberalism considers as its main task the promoting of ideas, not the organising of social reforms. This does not mean that we are happy with existing institutional arrangements or with the snail's pace of the official economic reform. But it does mean that we do not pretend to know all the solutions. We are afraid of the unrestrained reform romanticism of some of our colleagues, and we consider our primary task to be the blocking of faulty political decisions, not the creation of ambitious constructivistic solutions.

We oppose any sort of radicalism because the radicalism of reformers can very easily lead to unproductive discontinuity, which can be very harmful to society. We also do not possess any positive, complex reform blueprint and we know very well that our colleagues who are enthusiastic reformers also do not possess one. Reform is a very dangerous undertaking and we do not want to put our fates again into the hands of irresponsible intellectuals.

We do not share an almost religious belief in the efficacy of very detailed reform blueprints. The arguments have already been given; their perfect summary was given by A. Brzeski: "just as the optimal allocation of resources cannot be achieved outside the market process, because the process itself generates the necessary information, so in the overhaul of an entire system, only the actual steps taken disclose the acceptable path."

We start with the assumption that the efficiency-stifling behaviour of economic agents is deeply ingrained and can only gradually recede. We should proceed, on a parallel basis in several directions:

● Deregulation and administrative simplification to secure the slow retreat of the government from its present role in the economy (to the more limited role envisaged by mainstream economics);

● The careful nurturing of the market, because it is not true (as is often a priori assumed) that as soon as public sector institutions are dismantled or weakened, the private sector will rush in to take over these activities. Our markets are, and will in the foreseeable future be, very imperfect. Efficient entry to the market is, therefore, crucial and cannot be achieved without opening the market to foreign competitors and investors;

● Also important is the liquidation of various economic activities. Exit has more significance than entry and is more difficult to administer;

● The implementation of a sound macroeconomic policy, based on very restrictive monetary and fiscal measures, is the backbone of the whole manoeuvre and the precondition for the elimination of monetary latitude. As true liberals, we should start with a very heavy dose of monetarist medicine – with economic policy measures, not with formal institutional reforms – because with "easy money" no real changes in economic behaviour of any agents can be achieved.

This advocacy of small, practical steps and stressing marginal changes does not deny that there probably exists a certain "inflection point" in the development curve of the economy, which is difficult to chart. There probably exists a critical mass of reform measures, but we do not pretend to know its location. We try to be led more by pragmatic flexibility than by moralistic or ideological fundamentalism. Sound reform measures should be guided by properly understood and well-articulated national interests, not by abstract ideas (which we – as intellectuals – so admire).

It is necessary to stress that during a transition period some aspects of economic performance may deteriorate. Especially for this reason we should seek a new social contract – without it we cannot go forward. In some respect this is well understood in this country and this is the ground for our guarded optimism.

Vaclav Klaus was appointed Czechoslovak finance minister on Sunday. Tomas Jezek is an independent economist.

LETTERS

Pay and productivity may never match

From Mr Peter Robinson.

Sir, I should like to point out some obvious problems arising from Mr John Banham's, the Director-General of the Confederation of British Industry, analysis of pay and productivity (Letters, December 11).

At the moment, average earnings are growing at the rate of about 9 per cent a year. The underlying rate of growth of productivity in manufacturing is about 5 per cent to 6 per cent a year.

Unit labour costs are therefore rising at the rate of between 3 per cent and 4 per cent a year in the trading sector at a time when our competitors are, on average, registering no growth in unit labour costs.

How does John Banham propose that we arrive at a situation of zero or falling unit labour costs?

It is unlikely that underlying productivity growth can be increased enough to close the gap, so we must aim for a lower rate of growth of average earnings. But how is a smooth deceleratinn of earnings growth to be achieved? This is the dilemma.

It is also nonsense to suggest that pay must be rigidly linked to productivity in the private and public services sectors, where productivity is so hard to measure.

Is Mr Banham advocating that the ambulance workers should get a zero per cent pay rise because there has been no measured improvement in their productivity this year? It is natural that service sector workers should get pay rises not dissimilar to those in manufacturing. There will be some domestic inflation as a consequence of this, but the important thing is to aim for stable unit labour costs in the trading sector.

Peter Robinson,
Deputy Director,
Campaign For Work,
Annexe B,
Tottenham Town Hall,
Town Hall Approach Road, N15

Natural progression

From Mr David Erdman.

Sir, James Buxton, your Scottish correspondent, tells us (December 4) that Mr Roger Carr favours the UK Government's proposed devolution of the Nature Conservancy Council (NCC) and merger with the Countryside Commission for Scotland, of which he is chairman.

You should be informed that the director of the NCC in Scotland is seconded from the Scottish Office.

I should like to see a white paper on the issue – and an end to this charade.

David Erdman,
134 Goddard Way,
Saffron Walden, Essex

UK mathematics has a problem

From Mr Edward Troup.

Sir, Michael Prowse (Lombard column, "A nation that can't count," December 8) makes some disturbing points about the shortage of maths teachers and the poor performance of British school children in maths education.

The problem is more deep rooted than the lack of incentives for teachers, and deficiencies in the curriculum.

As a mathematics graduate turned lawyer, I am constantly faced with people's surprise that a qualified mathematician should be able or interested in pursuing any subject which does not involve numbers. Mathematics may take numbers as its starting point, but it is the subject, *par excellence*, which teaches problem solving and analytic thought.

Until the confusion between the purely numerical skills of arithmetic and the analytic skills of mathematics are understood, and the value of a mathematical training is recognised in the UK, no amount of increase in the number of mathematics teachers will solve the problem identified by Michael Prowse.

Edward Troup,
14 Dominion Street, EC2

Channel Tunnel Link

From Mr A.J. Dawesey.

Sir, You reported (November 30), surprisingly uncritically, British Rail's claim that a postponement of Parliament's consideration of the Channel Tunnel terminal bill would delay the introduction of safety measures at King's Cross.

This is undonbtedly an important issue, but BR will have to show clearly why a delay to the Bill will make it impossible to introduce safety measures if it wishes to escape the charge of irresponsible scaremongering.

Even if BR's case does stand up to scrutiny, it is only one factor to be considered. Arguably, the need for Parliament to consider the Tunnel Link plans as a whole is a more important matter, and points to Parliament's deferring its consideration of the terminal bill until the bill for the Link itself is ready next year.

Bearing in mind that Parliament was misled abont the need for a Link when the Channel Tunnel Act was agreed, MPs should engage in no further debate about BR's proposals until the package as a whole has been announced, unless the reasons for proceeding with a truncated measure are proved to be overwhelming.

A.J. Dawesey,
6 Bigwood Road, NW11

CBI leadership

From Mr J. Leigh Pemberton.

Sir, Michael Prowse's parthian shot (December 4), "...such a constructive approach to stagflation would require a bit of real leadership from the CBI," is an intellectually slack comment conveying the wrong impression to your readers (presumably not his intention) as well as discrediting the CBI (which may be).

By his own admission, one part of British industry would be unwise to take a unilateral stance on curbing pay – and yet that is, in effect, what Mr Prowse advocates. The CBI exists to represent its members on political and technical matters and to assist them when they require information. Whether Mr Prowse looks to leadership by the CBI membership or its central staff is unclear, but few members would take kindly to being advised how they should run their business by either.

The CBI staff could provide material to help the membership resist warranted pay claims – they do. Their presentation on this subject has earned the acclaim not only of CBI members, but denizens of Westminster and Whitehall. I commend them to Michael Prowse. But to advocate this sort of leadership is to fail to understand the nature of the organisation. In the case of your particular paper, that is disappointing.

J. Leigh Pemberton,
Whatman Reeve Angel,
Springfield Mill,
Maidstone, Kent

Sematech and the Pentagon

From Mr Miller H. Bonner.

Sir, Your editorial concerning Sematech ("Retreat from Intervention," November 20) states:

"Even companies participating in Sematech think the Pentagon's invnlvement has reduced the scheme's commercial usefulness. US banks are deeply reluctant to fund it – ironically, much of the private finance for it has come from Japan."

On the matter of funding, half of Sematech's $200m annual budget comes from the Defence Advanced Research Projects Agency (DARPA) and half from its 14 US-based member companies. No bank has been asked for funds and absolutely no funds have come from Japan. To say otherwise is a gross mis-statement of the facts.

Further, Sematech represents an extraordinarily successful collaboration between private industry and DARPA. DARPA recognises that leading-edge, high-volume commercial prodnction is the best guarantee of adequate semiconductor supplies for all customers, government, or industry – and that its support for Sematech will help the US regain that capability. Our member companies are well-satisfied with the partnership, as is DARPA.

Miller H. Bonner,
Director of Communications,
Sematech,
2706 Montopolis Drive,
Austin,
Texas 78741, USA

FINANCIAL TIMES

Wednesday December 13 1989

Gorbachev prevents debate on role of party

By Quentin Peel in Moscow

MR Mikhail Gorbachev, the Soviet leader, was yesterday forced to use his full authority and powers of persuasion to prevent his new super-parliament from debating the monopoly rule of his own Communist Party.

In the face of a concerted attempt by all the most radical reformers in the Congress of People's Deputies to demand an *immediate full-scale debate* of the party's "leading role," Mr Gorbachev marshalled his obedient majority in the 2,250-strong assembly to reject the move.

He only succeeded by a relatively narrow margin – 1,138 votes to 839, with 56 abstentions – and after blatantly using his position as President to dominate the discussion.

He pleaded for the whole issue of Article Six of the Constitution, which enshrines the party's exclusive position, to be deferred until a constitutional reform package was debated.

He then virtually admitted that it was the party itself which still needed to decide how to deal with it.

"We should not transform this question into a matter for political profiteering," he said. "We will have a party congress soon and the Central Committee and the party will find how to solve the problem."

The reformers' onslaught on Article Six has been fuelled by the tide of change in Eastern Europe, although it has yet to pick up mass popular support in the Soviet Union.

Dr Vilen Tolpezhnikov, from Latvia, said: "Power in this country does not belong to us deputies."

It was the Communist Party Politburo, not the Government, which decided to send in troops against unarmed demonstrators in Tbilisi in April, he said.

Mr Yevgeny Yevtushenko, the Russian poet, formally proposed that Article Six be put on the agenda for debate – and a string of speakers lined up to back him.

However, Mr Gorbachev insisted that no one speak for more than a minute and guillotined the debate after only three had their say.

Then he took the floor to put his own point of view for 15 minutes.

On the one hand, he repeated that in the long run, Article Six might well have to go: "Life sometimes contradicts certain constitutional articles," he said. "It is not a tragedy. It is a normal process."

On the other, he warned against turning the role of the Communist Party into "confrontation." He insisted, against all the evidence, that "at this historic phase, the party enjoys the full support of our society."

The radicals suffered a second defeat when the deputies voted to discuss a Constitutional Compliance Committee, furiously rejected by the Baltic group. They maintain that the present constitution will be drastically rewritten, so it is pointless to enforce its provisions.

However, Russian-speaking members from the Baltic republics pleaded for the committee to be set up – on the *grounds that the rising tide* of nationalism in Estonia, Latvia and Lithuania is threatening their electoral and linguistic rights, not to mention the gathering demands for outright independence.

The constitutional battles continued for so long that an important economic presentation, including emergency measures, by Mr Nikolai Ryzhkov, the Prime Minister, had to be postponed until today.

Mikhail Gorbachev calms a group of deputies during a break in the first day of the Soviet parliament's winter session yesterday

UK water shares surge to 45p premium in sparkling debut

By Clare Pearson in London

SHARES in the 10 water companies of England and Wales shot to a premium of about 45p on the 100p partly-paid price yesterday in dazzling debut dealings on the stock market.

The performance, much better than expected, dominated activity on the rest of the London market, which rose in admiration at the show.

In early dealings the companies' shares stood at between 168p and 135p before easing during the day to close within the range 157p for Northumbrian – the star performer – and 131p for Severn Trent.

The package unit, which comprises 1,000 shares in all the companies and is held only by institutional investors, closed at 1,395p.

Early prices confounded even the most optimistic of recent City of London expectations. However, J. Henry Schroder Wagg, the merchant bank advising the British Government, denied that the prices showed the Government had sold the companies too cheaply at an initial market value of £5.24bn ($8.28bn).

Mr David Challen, a Schroders director, said: "Offers for sale of this size are a case of feast or famine, and in this case we've been lucky, with a strong market behind us."

Northumbrian, the smallest company, was certain to be in strong demand yesterday after it emerged on Monday that its offer for sale had been nine times subscribed.

Mr Challen said the premium on water shares was "just about right," taking into account gains made by the whole market since the 240p fully paid price a share was struck in November and the premium built in, as normal, to the pricing of an issue of this scale.

Most private investors will have to hope the water prices hold up until after Christmas. They will not receive their share certificates until towards the end of next week and few will be able to sell their holdings without this evidence of ownership.

● The British taxpayer is subsidising the water privatisation by £3.3bn, Ms Ann Taylor, Labour Party spokeswoman said. She estimated that the net loss due to the write-off of debt and injection of cash was £1.29bn. Additionally, the taxpayer was having to come up with £2.04bn, which included about £200m for promotion and underwriting and about £120m for incentives to customer shareholders.

She said it was "imperative that the House of Commons Public Accounts Committee investigates this gross misuse of public money."

Adding fizz to the issue, Page 17; London Stock Exchange, 37

EC textile companies to promote trade group

By Alice Rawsthorn in London

THE most powerful textile groups in Western Europe are joining forces to create a new organisation to represent the industry on trade issues including the forthcoming negotiations over the future of the Multi-Fibre Arrangement.

The heads of the 25 largest European textile and clothing companies met in Brussels on Friday to finalise plans for the organisation. They decided to form a group to promote the industry's interests and to take action on issues such as the MFA, the bilateral agreement regulating the world trade in textiles.

The companies represented at the meeting included Marzotto and Benetton of Italy; DMC and Chargeurs of France; together with Coats Viyella and Courtaulds of the UK.

Textiles is one of the biggest manufacturing industries in the EC.

It employ 8m people directly and indirectly provides employment for a further 1.5m.

The industry is already represented by a number of pan-European trade organisations, like Comitextil in Brussels.

In recent months the textile and clothing companies have faced issues such as the MFA, which is widely expected to be phased out when the present arrangement expires at the end of 1991, and the approach of the unified market in Europe after 1992.

The organisation will be composed of a committee of six industrialists chaired by Mr Julien Charlier, chairman of DMC. The four largest textile markets – West Germany, Italy, the UK and France – will each have one representative.

There will also be a representative for the smaller southern countries and one for the smaller markets in the north.

Mr Klaus Steilman, chairman of *Steilman, will represent* West Germany.

France will be represented by Mr Léon Clingman, head of Lacoste, and Italy by Mr Pietro Marzotto, chairman of Marzotto. The representatives for the UK and the smaller markets have not yet been nominated.

Delors calls for second special conference

By Lucy Kellaway in Strasbourg

MR JACQUES DELORS, president of the European Commission, said yesterday he saw a need for two separate inter-governmental conferences to deal with economic and monetary union (EMU) and the reform of European institutions. He suggested that the second should take place one or two years after the EMU conference at the end of 1990.

His view is likely to be unpopular with the West German government, which said at Strasbourg last weekend that the question of the powers of the European Parliament should be tackled at the EMU conference.

Mr Delors said if there was one inter-governmental conference with one long agenda, "nothing proper will come out of it".

He was briefing the European Parliament after last weekend's Strasbourg summit, at which the social charter – despised by Parliament for being too weak – was approved by all members except the UK.

He sought to show that the battle for a social Europe has not been lost, by promising new measures on workers rights in the new year.

Three areas singled out for urgent attention were: conditions for temporary workers, flexible working hours, and the right of workers in multinational companies to information and consultation. It was unclear whether these would involve legislation or merely recommendations.

Mr Jean-Pierre Cot, leader of the majority Socialist group in Parliament, said he was encouraged by Mr Delors remarks, which were a sign that the Commission's action programme will be less woolly than the social charter itself. Earlier this month he be threatened a vote of censure against the Commission unless it put forward tougher measures on social and workers' rights.

Mr Delors congratulated the French presidency on its efforts over the last six months, saying that 76 per cent of the directives up for decision will be adopted by the end of the year.

Mrs Edith Cresson, French minister for Europe, presented a glowing account of her country's presidency, which during the past week has secured important decisions on three main areas: telecommunications, road cabotage (the transport of goods within a domestic market by foreign carriers) and air fares. She hoped that final agreement would be reached next week on mergers and on public procurement.

Other member states, which had criticised the publicity-seeking way the French have conducted their presidency, now agree that the term has been a success. Transport and telecommunications had been seen as difficult tests of the Community's real commitment to breaking down barriers.

Japanese trade surplus falls

By Robert Thomson in Tokyo

JAPAN'S merchandise trade surplus for November fell to $3.53bn, down from $5.56bn a year earlier, but the bilateral surplus with the US remained large and will continue to be a source of significant tension between the two.

The surplus with the US was $3.57bn, down from $4.4bn for the same month last year, but higher than the total trade surplus. The Ministry of Finance figures showed that for the first month in recent history, Japan's trade with Asia – $12bn – exceeded its trade with North America – $11.68bn – reflecting Japan's growing links with *countries in the region.*

Total exports were $22.03bn, down 2.9 per cent from a year earlier, while imports rose 14.8 per cent to $18.49bn, although the figure was distorted by an 85.1 per cent increase in crude oil imports, which is due to a change in oil taxes in August last year that resulted in significantly lower imports in the last few months of that year.

Imports of machinery rose 22.5 per cent, largely due to a 37 per cent increase in car imports, about two-thirds of which were from West Germany. Car exports fell 9.4 per cent.

Exports of TV sets fell 24.4 per cent, video recorders by 24.1 per cent, and video cameras by 12.1 per cent. Imports of meats rose 52.5 per cent, showing the impact of eased restrictions on beef imports, while imports of electrical appliances rose 38.1 per cent.

In trade with the European Community, Japan had a surplus of $1.08bn on exports of $3.75bn, up 0.4 per cent, while with Asian nations, Japan showed a surplus of $1.13bn on exports of $6.55bn, down 2.9 per cent. The country recorded a deficit of $1.56bn in trade with the Middle East, the source of most of Japan's oil. Dr Kenneth Courtis, of DB Capital Markets (Asia), said that Japan's trade with the newly-industrialised countries of Asia had exceeded its trade with the EC.

Chips market access, Page 6

Thatcher defends repatriation policy

Continued from Page 1

are currently in Hong Kong, most of whom are unlikely to qualify as refugees. A group of 51 was returned by air on Monday night. Officials acknowledged that the programme would continne for "many months or years."

In Hanoi, a witness described the Vietnamese as looking tired and depressed on arrival before they were moved to a reception centre six miles away.

In hostile Commons' exchanges, the Prime Minister was accused by Mr Neil Kinnock, Labour leader, of sending "tyrannical" orders and "trying to defend the indefensible".

Mrs Thatcher indicated no weakening of her resolve, however, saying Mr Kinnock's comments were "feeble and nonsense." She said no armed police had been used on Monday night adding, "it is perfectly in order to return illegal immigrants."

Mr Hurd said that at the International Conference on Indo-Chinese refugees in Geneva in June, it had been agreed that those who did not qualify as refugees would not be resettled and should return to Vietnam.

Criteria for deciding who qualified as a refugee was decided by the United Nations High Commission for Refugees.

All those returned involuntarily will receive $620 via the Vietnamese Government.

He emphasised the importance attached to proper screening of refugees and the monitoring of those who return to ensure they are not ill-treated.

Mr Hurd said that if not repatriated, the boat people would face "the prospect of indefinite detention in camps in Hong Kong." He added: "Vietnam has told us that those repatriated will not be punished for leaving."

Apparently convinced that force had not been used, the Vietnamese Foreign Ministry said the use of force was against humanitarianism.

"Along these lines, Vietnam has conducted negotiations and reached agreement with the British government and Hong Kong authorities with a view to stepping up voluntary repatriation and the acceptance of those who do not object to being repatriated."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	11	52	Dubrovnik	S	12	54	Malta	F	17	63	Rhodes	S	18	65
Algiers	F	20	68	Edinburgh	F	4	39	Manchester	C	3	37	Rio de J'o	C	36	97
Amsterdam	C	1	34	Faro	C	18	64	Manila	F	29	84	Rome	C	11	52
Athens	S	3	46	Florence	C	8	46	Melbourne		–	–	Salzburg	S	4	39
Bahrain	R	19	66	Frankfurt	Sn	-1	30	Mexico City	C	20	68	San Francisco	S	5	41
Bangkok	F	32	90	Funchal	S	22	72	Miami	S	16	61	Seoul	S	5	41
Barcelona	F	13	55	Geneva	C	2	36	Milan	Fg	0	32	Singapore	F	29	84
Beirut		–	–	Gibraltar	R	16	61	Montreal	Sn	-16	3	Stockholm	Sn	-3	27
Belfast	R	4	39	Glasgow	F	3	37	Moscow	Sn	-10	14	Strasbourg	R	1	34
Belgrade	S	4	39	Guernsey	F	11	52	Munich	S	3	37	Sydney	F	23	73
Berlin	C	1	34	Helsinki	S	-19	-2	Nairobi	C	22	72	Taipei	F	21	70
Biarritz	F	16	61	H. Kong	S	22	72	Naples	C	9	48	Tangier	R	16	61
Bombay	S	30	30	Innsbruck	S	0	32	Nassau	C	23	73	Tel Aviv	C	16	61
Bordeaux	F	15	59	Inverness	C	-1	30	New Delhi	S	21	70	Tenerife	S	23	73
Brussels	C	4	39	Islamabad		–	–	New York	C	0	32	Tokyo	C	12	54
Budapest	S	2	36	Istanbul	F	5	41	Nice	C	8	46	Toronto	F	-13	9
B. Aires	C	35	95	Jakarta	R	30	36	Nicosia	S	17	63	Tunis	F	18	64
Cairo	F	18	64	Jersey	F	11	52	Oporto	C	15	59	Valencia	F	17	63
Cape Town	S	24	75	Jo'burg	F	23	73	Oslo	S	-1	30	Venice	C	3	37
Caracas	C	28	82	Lima	F	25	77	Paris	C	5	41	Vienna	S	2	36
Casablanca	C	18	65	Lisbon	R	17	63	Peking	S	3	37	Warsaw	F	-1	30
Chicago	S	-14	7	London	R	9	48	Prague	S	-1	30	Washington	Sn	1	34
Cologne	R	0	32	Los Angeles	S	9	48	Reykjavik	S	-4	25	Zurich	C	3	37
Copenhagen	C	1	34	Luxembourg	R	0	32								
Corfu	F	15	59	Madrid	C	8	46								
Dallas	S	-7	19	Majorca	F	17	63								
Dublin	C	6	43	Malaga	Dr	15	59								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thun

THE LEX COLUMN

The market walks on water

The water sell-off has seen the City pull the latest version of the three-card trick – rubbishing the issue in advance, forcing the Government to price it cheaply and then piling in for easy *profits. Chief dupe* looks like being the taxpayer, who will net only about £500m as first payment on an industry which had assets of £7.7bn even on a limited historic cost accounting basis.

Of course, the Government could not have banked on a 7.8 per cent rise in the FT-SE between pricing day and first dealings. And given the feast-or-famine nature of new issues, a 16 per cent premium on the fully-paid package may not seem excessive. However, given the extent of the largesse which had to be spread to smooth the issue's path, one might question whether privatisation was justified at all.

The City probably welcomed the turnover as much as the *profits; early figures indicate* that more than double the recent amount of daily business was done yesterday. With Sid still waiting to receive his allotment letter, the institutions took the chance to reshuffle their portfolios – selling the package and buying the most attractive individual issues.

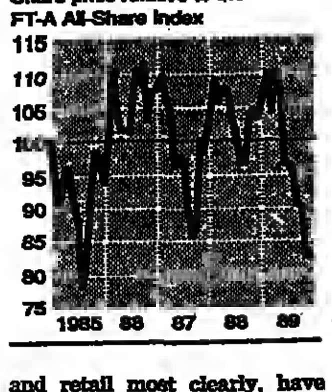
The success of the issue is probably a one-off; finance directors need not assume that fund managers will look any *more kindly on rights issues* plans. The chief effect on the market will probably be structural. It is as yet unclear whether any water stocks will join the FT-SE, but the existence of 10 utilities should allow income funds to improve the quality of their portfolios. Even after yesterday's share price jump, the water companies are still yielding between 7.2 and 8 per cent. Those institutions that already own British Steel (historic yield 7.9 per cent) or ICI (6.3 per cent) may wonder whether they now need to bother with corporate high yielders such as Powell Duffryn or Beazer. And the K factor makes the stocks look an attractive alternative to index-linked gilts.

Granada

Never mind Granada's strategic thinking, which looks sensible enough. What rankles is the messy way it puts it into practice. The Lasky's débâcle – bought near the top of the cycle for £30m, sold for £9m – was embarrassing enough but not unique. Since the mid-1980s Granada's acquisitions and capital spending, in TV rental and retail most clearly, have been swallowing cash at an ever-increasing rate; and the pay-back is overdue.

Granada

Share price relative to the FT-A All-Share Index



Not that everything was disappointing in yesterday's annual figures, though the 7 per cent rise in earnings per *share was flattered by the* £40m of below-the-line charges for Granada's retreat from specialist retailing. Taking 50 per cent of this autumn's new UK TV and video rental market was impressive, and helps vindicate Granada's purchase of Electronic Rentals. As the franchise auction approaches, Granada TV is looking impressive: not only are its 13.2 trading margins twice as high as in 1985, but the working practices wrung from its unions in October should help *offset any* advertising revenue slowdown this year.

But on fundamentals the market was amply justified in lopping 13p off the share price to 302p. The last year in which Granada's depreciation charge covered its capital spending was 1985; since then it has splashed out £750m, with another £300m to come this year. Each move has looked justifiable at the time; but at about 23 per cent a key ratio, return on capital employed, was last year at its lowest level since mid-decade. On this showing – and with the IBA's influence looking depleted – Granada is starting to look vulnerable to predators again.

Racal

Racal Electronics' interim figures present a familiar pattern, if rather more starkly than usual. At the trading level, profits from everything else have halved. This has its welcome aspect: as long as the manufacturing side remains a substantial contributor, it will be a drag on growth overall. Group earnings per share, up by only 9 per cent half way, might be held to a similar increase for the full year. But if Racal Telecom carries on growing at this rate – earnings up nearly 150 per cent at the interim – group earnings could be up 50 per cent next year.

At 241p, the current year multiple is around 25. This might seem steep for Racal's clutter of businesses. But the group could still be the fastest-growing member of the FT-SE next year. If the quality of Racal Telecom is obscured by its surroundings, the case for unbundling will become ever more compelling. Some of the bits – Chubb in particular – would be worth something in their own right.

Dixons

The assault on Dixons in Kingfisher's offer document comes down to two propositions. Dixons' profits collapse is bad management, not bad luck; and Dixons' accounts cannot be trusted anyway. The first must be partly true. Two years ago at least, the Dixons formula was unduly rigid; the fall in UK retailing profits in 1987/88 was not primarily the fault of the market. What is less clear is how far things are being put right during the present, genuine, market downturn.

The issue could be crucial to Dixons' independence. If Kingfisher were to make a final offer only slightly above the present 120p, the institutions' choice would turn on whether they thought Dixons' earnings could bounce with the market, or whether Kingfisher could convince them that the decline was irreversible.

Hence Kingfisher's attempt to show that even in the good days, the size and quality of Dixons' UK retail profits were not what they seemed. In particular, it is alleged that at least £31m of retail profits in the past three years are really profits on sale of properties. Dixons denies this, but in slightly muted terms. In addition, the fall in property fixed assets from £123m to £42m over four years is faintly worrying, even if much of it was due to the sale of Carrys' freeholds and the purchase of development property which was then reclassified as stock.

Meanwhile, the Dixons price sits 16p above the offer. This might be a justifiable risk; in particular, an OFT reference no longer looks quite as inevitable as it did at first, even if it remains fairly likely.

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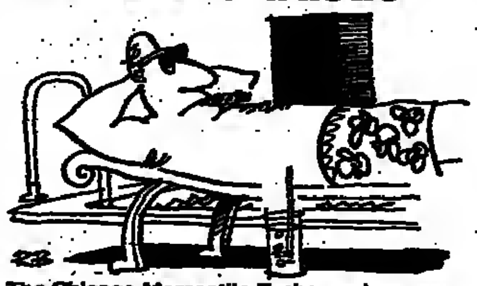
INSIDE

Looking beyond the hustle and bustle



The Chicago Mercantile Exchange has seen the future of futures — and it is a black box called Globex, the system that will process trades far away from the frenzy of the industry's bustling trading floors. But clouding the optimism on this front is the widespread government probe into trading fraud in Chicago — the industry's birthplace. Deborah Hargreaves looks at the futures industry as it approaches the 21st century. Page 21

Counting cost of contraction

Withdrawing from electrical goods retailing involved losses of £24.8m and the disposal of the associated credit operations cost it £16.6m, television, leisure and business services group Granada revealed yesterday. However, the losses associated with the disposals, which included the sale of Laskys to Kingfisher, were shown as extraordinary items which did not affect the profit and loss account or earnings figure, and chairman Alex Bernstein was able to report a 15 per cent increase in pre-tax profits to £164m. Page 22

Clean-up in the meat trade

Britain is generally considered a nation of animal lovers. But, with the revelation that only 73 of the country's 850 abattoirs meet European Community standards for hygiene and animal welfare, this image has been shaken. Bridget Bloom looks at how the UK's £7bn meat industry is proposing to clean up its act. Page 26

Not out of the woods yet

Alan Bond (left) has won a breathing space, but neither he nor Bell Resources, the 58 per cent-owned Bond Corporation subsidiary, is out of trouble yet. For, although Adelaide Steamship yesterday withdrew its receivership petition against Bell Resources, it did so only after winning strong representation on the board. Adsteam board representation provides the influence over Bell Resources needed to protect the value of its 19.9 per cent shareholding — and was, according to some analysts, the main objective of its sudden court move last Friday. Page 19

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Nixdorf	313	+	16
Thyssen	270	+	11½
Falls			
BMW	539	−	5
Brown Boveri	600	−	10
Degussa	501	−	15
Hochtief	956	−	29

NEW YORK ($)

Rises			
IBM	96½	+	⅜
Phillips Pet.	25⅝	+	1¼
Falls			
Apple Corp.	35¼	−	3½
Hilton Hotels	95⅞	−	⅝
Lands End	20⅞	−	2⅞
Pitney Bowes	48	−	3

PARIS (FFr)

Rises			
Bongrain	3170	+	23
Chargeurs	1359	+	39
Euromarché	4400	+	45
Legrand	3560	+	35
Schneider	955	+	20
Falls			
Printemps	737	−	13

TOKYO (Yen)

Rises			
Aiwa	2610	+	400
Daito Wool	1230	+	120
Marushi Cycle	1440	+	200
Nihon Unisys	2660	+	240
Union Optical	1540	+	140
Falls			
Sun Telephone	1490	−	110

New York prices at 12.30.

LONDON (Pence)

Rises			
Abbey National	170	+	4
Barclays Bk.	552	+	8
Cable & Wire	520	+	6
Control Sec.	51	+	6
Davies Newman	720	+	50
Expl.Co.Lndn.	276	+	9
Lucas Inds.	639	+	4
Polar Elect.	95	+	15
Racal Telecom	403	+	14
Reed Int.	439	+	13
Royal Insce.	515	+	7
Std.Chartered	555	+	19
Sun Life	1280	+	12
Tops Estates	178	+	15
Vickers	212	+	5
Falls			
Carlton Comm.	832	−	20
Redland	540	−	8
Vaux Grp.	322	−	14
Wolv.& Dudley	444	−	9

Adding fizz to the water issue

Richard Evans and Andrew Hill on what made the flotation a success

Michael Howard: "reaffirmation of popular capitalism"

Alan Harper

In the City, which measures a company's fortunes in minutes, the water industry, which plans its capital expenditure over 20 years, looks somewhat incongruous.

Yet this was the whirlpool into which the 10 water companies were thrown yesterday, after several months of waiting for the plunge.

When dealings opened, Stock Exchange screens showed shares in Northumbrian Water rising immediately to nearly 70 per cent above the partly-paid offer price. The chairman of Thames Water was seen on the floor of the London traded options market — one of the last bastions of the "open outcry" method of dealing — inquiring about the fate of Thames options amid frenzied trading.

Such scenes had opponents of this most controversial privatisation gleefully sharpening their criticisms, and accusing the Government of giving water away. But professional observers were keen to blow away the hysterical froth of the first day of dealings.

Mr Lakis Athanasiou, an analyst at Phillips & Drew, broker for two of the 10 companies, said: "Institutions are being very sensible — they want to get up to full weight in water shares or more, but they're waiting for investors in Japan [where dealings begin tomorrow] and UK private investors to make the stock available."

He added: "As to it being 'a giveaway', that's very unfair I think. It's a giveaway at the current market prices, but it wouldn't have been like this on November 22 [when the price was announced]."

None the less, dealing in water shares — including the institutions' 1,000-share packages of all 10 companies' stock — accounted for nearly 70 per cent of the whole market's trading volume yesterday.

The professionals warned against reading too much into the first-day premiums, which averaged 45 per cent at the close, pointing out that for long-term holders that represented a premium of only 19 per cent on the fully-paid offer price of 240p.

Whatever the reasons for the apparent success of the water flotation - a reaffirmation of popular capitalism as Mr Michael Howard, the water minister, suggests, or the innate gambling instinct of the share punter who knows a dead cert when he sees one - there is no doubt marketing has played a large part in it.

A barrage of problems confronted the Government in 1985, when flotation was first mooted, not least the complexity of an industry composed of 10 different companies. Those difficulties were compounded by the Department of the Environment, which at first seemed slow to recognise the scale of the task, and by external crises.

They included political attacks on the industry by political and environmental opponents, bruising rows with Brussels over water quality, internal dissension within the industry on the future structure and pricing policy and one of the worst prolonged droughts of the century.

Against that offensive the Government has employed an army of advisers, ranging from accountants to advertising agencies.

Prime credit for the success of the issue must go to the jubilant but exhausted team at J. Henry Schroder Wagg, the merchant bank. It has acted as lead adviser, co-ordinating the other specialist advisers and managing the entire project, in addition to providing financial advice on all aspects of the privatisation having an impact on its appeal to investors. Schroders became involved when it did initial feasibility work on the project in the autumn of 1985. The bank was than formally appointed as the Government's advisers early in 1986, with Mr David Challen as director with overall responsibility.

In the summer, Mr Gerry Grimstone, another corporate finance director and former Treasury mandarin in charge of privatisation, was brought in to take over principal responsibility for contact with the press and television. He became something of a media star at the series of carefully orchestrated press conferences between early September and late November when various aspects of the flotation were revealed drip by drip.

At a relatively late stage, in July 1988, Dewe Rogerson was appointed marketing and communications adviser jointly by the Government and the industry, and it has since played a key role in projecting the little known industry as well as contributing to the offer structure and the planning of the flotation.

Apart from that central — and much-criticised — marketing effort, there were several important elements in the final alluring package.

● The "green dowry". Investors needed reassurance that the 10 companies, laden down with debt, would survive in the private sector. The Government wrote off the debt of the companies and injected cash — a total bill of £6.5bn. The cash injection was dubbed a green dowry: as a result, at the point at which opposition to the measure was at its height, the Water Bill was painted as an environmental measure, diverting attention from accusations that the taxpayer was being short-changed.

● A common share price. The public, once educated that water was a real industry, needed to be taught its complexities. The easiest way to do that was by setting a common share price, thus giving the appearance that all the companies were on level terms and, the Government hoped, spreading applications equally.

● The yield. This was the most testing conundrum for the Government's advisers — how to offset the actual and apparent differences between the companies by juggling relative dividend yields and numbers of shares. Analysts seemed agreed yesterday that the Government had succeeded in balancing the 10. A spread of 28p between Northumbrian (which closed at 157p) and Severn Trent (on a closing price of 131p) was not considered excessive.

● Incentives. The need for customers to pre-register in order to be eligible for incentives helped advisers to assess the popularity of the privatisation well in advance of yesterday's first day of dealings. It may even have influenced the yield-setting exercise.

The Government is also eager that investors should show loyalty to what is, by any definition, a long-term industry. The number of small investors still holding shares when asked to pay for the final instalment in July 1991 will probably be the most accurate measure of the market success of this most unpopular privatisation.

So how long before we know whether hard work behind the scenes has paid off, and the water companies can carry on with their most important duty — supplying and disposing of water?

"I don't think it will take very long to settle down, once the share price has established itself and reached some sort of equilibrium," said one senior water company manager yesterday.

That said, it is doubtful whether the water industry will ever recover the invisibility it enjoyed before the horde of brokers' analysts, journalists and politicians began to follow its every move. Such are the penalties of privatisation.

Sales drop hits Apple shares

By Louise Kehoe in San Francisco

APPLE COMPUTER'S stock took a nosedive yesterday when the company announced sales were below forecasts.

It added that earnings for the current quarter will be below those for the corresponding period last year. At midday, Apple's stock was down $4 at $35¼ in heavy trading.

The company now expects net sales for its first fiscal quarter ending December 29th, to exceed the $1.405 billion achieved in the first quarter last year.

Apple has emphasised its role in the business sector of the personal computer market during the past two years. Yesterday it acknowledged sales to consumers, traditionally a boost to revenues at this time of year, have been lower than expected.

Apple executives said recently they expected worldwide sales to grow by about 20 per cent during fiscal 1990 and US sales to grow by 15 to 18 per cent. Yesterday the company declined to comment on these projections.

Although sales of Apple's Macintosh computers, particularly high end models, have been strong, they have been below forecasts. Earnings are now expected to be below the $1.10 per share level of the first quarter of fiscal 1989, the company said.

Apple has had problems increasing production of its latest product, the Macintosh Portable, due to supply difficulties for the flat panel screen display. Analysts had predicted such problems. The screen is available from only one manufacturer and is the most advanced of its type.

Apple's announcement raised further concerns about a general slowing of growth in the US personal computer market. Compaq Computer stock price also fell yesterday to trade at $80¾ at midday, down from $81¾.

Apple's sales difficulties are related to the consumer segment of the personal computer market. Although Apple has traditionally seen a surge in sales of its lower performance Apple II computers at this time of year, the company acknowledged yesterday that it demand for its low-end products is softening.

"We are very cautious about the outlook for the consumer portion of our business," said an Apple official. "There seems to be a general economic trend toward lower consumer spending. We are not prepared at this time to predict how long this trend will continue or how it will impact our sales throughout the year."

Racal Telecom makes £75m pre-tax profit

By Hugo Dixon in London

RACAL Telecom, the mobile communications group which runs the Vodafone network, yesterday more than doubled its pre-tax profits to £75.1m ($117m) for tha six months to October 13th.

The results, which compare with £30.6m for the same period last year, were higher than the market had been expecting.

Racal Electronics, which owns 80 per cent of Racal Telecom, also reported higher than expected pre-tax profits of £82.5m, up from £62.4m. However, the financial performance of its non-telecommunications businesses fell.

Racal Telecom's results were driven by accelerating demand for mobile phones. Vodafone now has more than 400,000 customers and expects to have 500,000 by the end of the financial year.

The telecommunications group's turnover increased 72 per cent to £193.9m. Post-tax profit shot up 147 per cent to £53.6m and an interim dividend of 0.7475p will be paid.

Mr Gerry Whent, Racal Telecom's chief executive, said the group had recently bought out the half share of Orbitel, the mobile communications manufacturer, it did not already own.

Racal Telecom had paid GEC and Siemens, which acquired the stake after their takeover of Plessey, the amount of investment Plessey had originally made plus accrued interest, he said. Mr James Dodd, an analyst at Kleinwort Benson Securities, said it looked as though Racal had cut an excellent deal.

Racal Electronics' turnover for the half year increased 24 per cent to £940m. Apart from telecommunications, the main sector to improve its performance was security, which earned operating profits of £18.9m, up from £13.7m.

Profits in the data communications products division fell to £11.6m from £13.8m as margins were squeezed by heightened competition. Racal's new network services divisiun mada losses of £6.6m, compared with losses of £2.0m — a reflection of the fact that its projects are in a start-up phase. Tight defence budgets resulted in a £2m loss in defence radar and avionics.

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Emerson bids FFr2.9bn for Leroy-Somer

By William Dawkins in Paris

EMERSON ELECTRIC, tha leading US electricals group, yesterday launched a FFr2.9bn ($475m) agreed bid for Leroy-Somer, France's top producer of electric drives and motors for industry.

This is one of the biggest US acquisitions seen in France and will put Emerson Electric among the largest world producers of electric motors, such as Switzerland's ABB, West Germany's Siemens and General Electric of the US.

Leroy-Somer, based in Angoulême, approached the Missouri-based company two and half months ago, seeking a new owner on the grounds that it needed a powerful industrial partner to help it hold its own in an increasingly competitive market.

Mr Jean Paul Montupet, Leroy-Somer's North American director said a majority of Leroy-Somer shareholders had agreed to the deal.

The French company is expected to contribute an expected $1bn to the combined group's $8bn to 9bn sales this year. It will become the main element of a new electric motors division, to be directed from the US by Mr Montupet.

Among the Emerson Electric activities to benefit will be ventilation and air conditioning, where the US company plans to use Leroy-Somer pumps, and industrial motors and drives, where Emerson Electric feels under-represented outside the US, said Mr Charles Knight, the group's chairman and chief executive. Currently, Emerson Electric makes 30 per cent of its sales abroad.

For the year to September, Emerson Electric yesterday unveiled an 11.2 per cent increase in net consolidated profits from $528m to $588m, on turnover up by 6.3 per cent from $6.6bn to $7bn.

This is its 32nd consecutive annual earnings rise and compares with the French company's net profits of FFr102m on sales of FFr4.46bn for the year to last December.

Emerson Electric will initially be buying Omet, the family-owned holding company which owns 36 per cent of Leroy-Somer, before proceeding with a public offer for the rest.

It is offering FFr2,125 per share, 28.7 times last year's earnings and a 7.7 per cent premium above the FFr1,972 at which the shares were last quoted before being suspended ahead of the announcement.

Background Page 18

Danes to create biggest Nordic bank

By Hilary Barnes in Copenhagen

THE CREATION of the Nordic region's biggest bank was announced yesterday when the Jutland-based Provinsbanken agreed to join the merger, announced earlier, between Danske Bank and Copenhagen Handelsbank.

The new Danske Bank will have total assets of just under DKr490bn and equity and reserves of over DKr23bn ($3.3bn).

It will have 16,000 employees and 750 branches in Denmark and abroad.

This is the latest in a series of moves which have restructured Scandinavian banking — including the merger between two of Norway's leading banks, Bergen Bank and Den norske Credit Bank, and bids by Svenska Handelsbank for Skanska Bank and by PKbanken for Nordbanken.

In Denmark, the Danske-Handelsbank tie-up was followed last week with the announcement of a merger between Privatbanken, SDS and Andelsbanken to create UNIbankDanmark.

The economies of scale and benefits from rationalisation would be considerably greater between the three banks than between Danske and Handelsbank alone, said a joint statement.

The merger would enable Danske to extend its reach considerably through wider branch coverage in the provinces.

Poul Svanholm, chairman of the supervisory board of Danske bank will be the chairman of the new bank.

Prof Bernhard Gomard, chairman of the Handelsbank's board, and A Bjorn Ruhne, chairman of the Provinsbanken board, will be first and second vice-presidents respectively.

Volvo share suspension fires sell-off speculation

By Jack Burton in Stockholm

SHARES IN Volvo, Pharmacia and Procordia were suspended from trading on the Stockholm bourse yesterday, prompting speculation that a significant deal between the three companies was in the offing.

Last night Volvo refused to comment on reports that it was on the verge of selling its controlling stake in Pharmacia, the Swedish pharmaceutical company, as well as its food division Provendor to Procordia, the state holding company, in return for shares.

A Swedish agency report said Volvo would receive 42.5 per cent of Procordia, giving it the same holding as the government's, in return for its pharmaceutical and food divisions, valuing them at SKr7.4bn ($1.17bn).

The sale of Volvo's interests in pharmaceuticals and food would mark the end of Volvo's decade-old diversification strategy and would allow it to concentrate on its core areas of cars, trucks and aerospace.

Mr Pehr Gyllenhammar, Volvo chairman, wanted to broaden the company's activity to offset cyclical sales of motor vehicles, but the non-core businesses have not performed according to expectations.

Pharmacia, in which Volvo has a 46 per cent stake, said last month that it was falling short of its profit forecast for 1989 due to declining sales in biotechnology. Operating profits for the Provendor food division fell 74 per cent to SKr126m in 1988 due to losses in fish trading operations.

The acquisition of Pharmacia and Procordia would transform Procordia into Sweden's biggest pharmaceutical producer and its leading food company. It already has a pharmaceutical subsidiary, Kabi, and a food business, Procordia Foods.

Volvo has been divesting itself of non-core businesses. It sold its 49.9 per cent stake in Hamilton Oil for $393m in 1987 and its oil trading operations last April, ending its involvement in the oil business. It also sold Hilleshog, the beet seed division of Provendor, this summer.

President of INA resigns over reduced role in BNL alliance

By Sari Gilbert in Rome

PROFESSOR Antonio Longo has resigned as president of Istituto Nazionale delle Assicurazioni (INA), Italy's state-controlled insurer, apparently because of disappointment over the reduced role INA seems likely to have in its future alliance with Banca Nazionale di Lavoro (BNL), of which it is the second largest shareholder.

Professor Longo's surprise resignation followed a unanimous decision on Monday by the INA board to accept the terms of a L816bn ($625.76m) BNL recapitalisation — to be approved today by the bank — and a broad agreement between the two entities.

Professor Longo negotiated the financial terms of the agreement, with an investment by INA of more than L1640bn (L441bn for the rights issue, as well as a seven-year L1200bn subordinated loan).

But he was known to be dissatisfied with the final terms of the agreement, which precludes utilisation by INA of the BNL sales distribution network.

Prof Longo, a 63-year old mathematician and financial expert had viewed the accord with BNL as a strategic alliance, involving the integration of the Istituto's insurance products with the vast distribution network controlled by BNL, Italy's largest bank.

Antonio Longo: disappointed by reduced role of INA

According to the original agreement initialled by Mr Nerio Nesi, BNL's former president, last June, the bank's "work-life" insurance sector would have been turned over to INA.

But there has been little support for this arrangement from Mr Giampiero Cantoni, BNL's new president, appointed in September after the outbreak of the scandal involving $3bn in unauthorised loans to Iraq.

Kingfisher says Dixons faces 'serious decline'

By Andrew Bolger in London

KINGFISHER, the UK retail group, yesterday predicted a bleak future in its present form for Dixons, the UK's largest electrical goods chain, for which it launched a hostile £568m takeover bid last week.

Launching the offer document, Mr Geoffrey Mulcahy, chief executive of Kingfisher, said: "Our offer of 120p in cash is a very serious price for a business in serious decline."

Dixons shares closed unchanged at 136p.

Kingfisher argues there is little prospect of recovery at Dixons under the present management because of the long-standing weaknesses in its commercial strategy, which preceded the present spending downturn, and the demonstrable failure of recent attempts to reverse the decline.

The document claims that Dixons, which also owns Currys, is now dependent on non-retail profits, having come to rely increasingly on income from credit and insurance sales and property disposals — sources which could be difficult to sustain.

Mr Stanley Kalms, chairman of Dixons, said: "Kingfisher's document does nothing to disguise the fact that they are trying to acquire Dixons on the cheap."

GM plans $49m parts plant for Portugal

By Kevin Done, Motor Industry Correspondent

GENERAL MOTORS of the US is to invest $49m in Portugal to build an electronic components plant as part of the expansion of its European automotive components operations.

GM's Delco Remy division, which supplies automotive electrical power systems including starter motors, alternators and ignition systems, is to set up a plant to build components for electronic engine management systems on the Setubal peninsular, south-east of Lisbon.

The plant, which will produce electronic ignition systems, timing sensors and knock sensors, is expected to create up to 500 jobs.

Production is expected to begin in late 1990, with a capacity for up to 500,000 direct ignition systems a year.

Demand for engine management systems in Europe will mushroom in the early 1990s as car makers are forced to comply with much tougher European Community exhaust emissions regulations, which imply the fitting of catalytic converters to most cars.

GM chose the Setubal location following an extensive search covering 23 possible plant locations in nine countries.

It already has four other automotive components plants in Portugal manufacturing wiring harnesses (Packard Electric division) and other parts (Delco Products), including brake hose assemblies and brake linings.

As a result of the latest expansion GM's Automotive Components Group Europe will have a total workforce of around 3,700 in Portugal at five locations.

GM, the world's largest vehicle maker, has radically reorganised its worldwide automotive components operations by bringing together its 10 leading subsidiaries into the Automotive Components Group to compete worldwide with specialist automotive components suppliers.

Times change in French bid arena

William Dawkins on Emerson Electric's takeover of Leroy-Somer

The agreed takeover announced yesterday by Emerson Electric, the big US electrical products group, for Leroy-Somer, the French producer of electric motors, is significant for two reasons.

First, the FFr2.9bn ($490.13m) deal is among the biggest US takeovers in France, larger than last year's FFr2.2bn takeover of Aussedat Rey, the paper company, by International Paper — though smaller than the FFr5.25bn takeover of the Martell drinks group by Seagram of Canada.

Second, Emerson Electric was invited to bid by Angoulême-based Leroy-Somer, a sign of the generally more open mood which has grown among French management in recent years. The partners came to an agreement very rapidly, in just over two months.

"This is another example of how times have changed," commented one of the investment bankers advising Emerson Electric.

Neither of the partners expects any serious political hitch in securing the required approval from the French Government, especially in the wake of the recent announcement by Mr Pierre Bérégovoy, the Finance Minister, that he was planning to streamline foreign investment procedures to improve France's bad reputation for blocking unpopular foreign bids.

Even so, French public anxiety about foreign takeovers still exists, as shown by Le Monde's description of the deal yesterday afternoon as a "new trauma for French industry."

In other ways, the deal as explained by both sides makes perfect industrial sense and came as no surprise to stockbroking analysts.

While profitable, Leroy-Somer felt it lacked the critical size and resources to compete adequately against larger groups active in its markets such as Siemens of West Germany or Switzerland's ABB.

"We have for long realised that we needed a powerful industrial partner and so we took the initiative to find one," said Mr Jean Paul Montupet, the Leroy-Somer board director who will now take responsibility for the French company from Emerson Electric's headquarters in Missouri.

"The combined companies will have a very strong position in motors and drives in the global market," said Mr Charles Knight, Emerson Electric's chairman and chief executive.

Emerson Electric seemed compatible industrially, where Leroy-Somer's traditional expertise in small motors and gears has something to offer to Emerson Electric's expertise in electronics for a wide range of markets, including domestic appliances, process control, tools and industrial machinery.

Mr Knight pointed to air conditioning and ventilation, which accounts for 16 per cent of Emerson Electric's sales, as one of the first areas to benefit, from access to compressors made by the French company.

The deal also fits in with Emerson Electric's attempts to expand the 30 per cent of its turnover that goes outside the US, where last March it took a 45 per cent stake in Britain's troubled Astec electricals group, formerly known as BSR International.

The only hitch comes from the French company's US subsidiary, King Bearing, which competes against Emerson Electric in power transmission and hydraulics and will accordingly be sold for an expected $50m to $60m.

A 12 per cent growth in international sales was one factor behind Emerson Electric's increase in annual profits announced yesterday, its 32nd consecutive annual earnings improvement.

Net profits rose 11.2 per cent from $529m to $588m in the year to September, on turnover up 6.3 per cent from $6.6bn to $7bn. Leroy-Somer's 1988 group profits rose from FFr73.1m to FFr162.2m, on turnover up from FFr3.8bn to FFr4.5bn.

After the takeover, Leroy-Somer expects to contribute the equivalent of $1bn to the $8bn-9bn sales of the new enlarged group, said the company.

In a separate deal announced yesterday Emerson Electric said it reached an agreement to acquire McGill Manufacturing, the US bearings maker, for $93 a common share, or about $135m.

Earlier this week SKF, the Swedish bearings group, said it had made a new, unspecified bid for McGill, which had rejected an earlier $72 per share cash tender offer from SKF. McGill had indicated on Monday that it had received several bids for the company at $90 a share or higher, but did not name the bidders.

French construction data exchange launched jointly

By William Dawkins in Paris

BOUYGUES, France's leading construction group and Cap Sesa, the country's biggest computer software company, yesterday announced a joint venture with France Telecom to provide automatic data exchange for the construction industry.

The new company, Edival, will automate the planning and paperwork involved in large construction contracts, using Transpac, France's public data communication's service.

All parties involved in a contract will be able to communicate plans, the progress of the work, the state of stock and other operational details, using screens linked to their different offices via the public networks, handled and assisted through Edival.

The service will be available through customers' own computers or on Minitel public videotext screens attached to printers.

This is the third joint venture sought by France Telecom to attract more value added services to use its data communications network.

It follows agreements over the past year with the Deutsche Bundespost for an international booking network for tourist operators and with four French banks for a high security network to transmit credit and charge card payments.

Edival, which expects an annual turnover of FFr150m ($24.83m) after five years, will be 40 per cent owned by Bouygues, 17 per cent by Cap Sesa and 43 per cent owned by Cogecom, the France Telecom subsidiary that operates Transpac.

COMPANY NEWS IN BRIEF

L.M. Ericsson, the Swedish telecommunication group, said Mr Hans Werthen will retire as chairman of the board at the annual general meeting in May next year, AP-DJ reports.

Mr Björn Svedberg, currently president, will be nominated for the chairmanship. Mr Lars Ramqvist, executive vice president and president of Ericsson Radio Systems, will be put forward as new president of Ericsson.

■ Akzo, the Dutch chemical company, and Hungary's Tiszai Vergyl Kombinat (TVK) will set up a coatings production joint venture in Leninvaros, Hungary, marking Akzo's first step into the eastern European coatings market, Reuter reports.

The venture, Akzo/TVK, in which Akzo has a 51 per cent stake, will start up in mid-1990, and will have with sales of Fl 100m ($1.57m) a year. Akzo will supply expertise and some, unspecified, investment.

■ Bührmann-Tetterode, the Dutch paper, printing and office equipment group, agreed to take a 40 per cent stake in West German office supplier Bierbrauer + Nagel in Stuttgart, Reuter reports. No financial details were disclosed. Stuttgart-based B+N employs 700 staff and has annual turnover of some DM200m ($113.25m).

■ Preussag, the West German commodity and engineering group said its profit in the first nine months of 1989 was significantly better than expected, AP-DJ reports.

Nine-month group sales climbed 17.1 per cent to DM10bn from DM8.6bn a year earlier, mostly because of higher trading volume at its London-based Amalgated Metals unit.

INTERNATIONAL COMPANIES AND FINANCE

Columbia Savings & Loan Association chief resigns

By James Buchan in New York

MR THOMAS Spiegel, the California banker who embodied the US thrift industry's headstrong rush into risky new businesses in the 1980s, has quit as chairman and chief executive of his Beverly Hills-based Columbia Savings & Loan Association under the weight of a collapsing junk bond portfolio.

Mr Spiegel, 43, who transformed a modest family institution writing home loans into an overbearing financier of takeovers and leveraged buy-outs, is the best-known victim yet of this autumn's crisis in confidence in the low-grade corporate bonds known as junk.

The market fall cut $320m off the market value of Columbia's $3.8bn junk bond portfolio in October and November, and the market has continued to be battered this month.

Mr Spiegel's resignation on Monday is apparently designed to detach the troubled junk bond portfolio from the thrift's $7bn-odd in more traditional assets, above all home loans.

This in turn may make it easier for Columbia to meet the tougher new capital requirements imposed on the industry in the summer and generally gain a more sympathetic hearing in Washington.

Mr Spiegel is understood to have a bad relationship with the regulators of the Washington thrift industry and has been drawn into a wide-ranging criminal investigation of his friend, mentor and Beverly Hills neighbour, Mr Michael Milken.

Mr Milken, who headed Drexel Lambert's junk bond operation, was largely responsible for the explosive growth of the junk bond market in the 1980s by convincing institutions such as Columbia to invest heavily in junk bonds.

At one point, in 1986, Columbia was reporting net income of $193.5m on revenues of $1.14bn.

Mr Spiegel, whose family still controls the thrift's voting stock, will set up a new bank to hold the junk bonds and will attempt to dispose of them in an orderly fashion.

In a statement published on Monday, Mr Spiegel said: "Columbia must rapidly strengthen its traditional mortgage-related activities at the same time we dispose of our high-yield securities portfolio."

Mr Kenneth Heitz, Columbia's general counsel, will serve as chief executive until a permanent replacement can be found.

On Wall Street yesterday, Mr Spiegel's resignation came as no great surprise.

However analysts said it leaves open big questions about the value of the junk bond portfolio. They added that much of it consists of securities privately placed with Mr Spiegel by Mr Milken to finance the dizzy succession of takeovers and leveraged buy-outs which he masterminded in the mid-1980s.

Said Mr Dou Crowley, a San Francisco-based analyst with the well-known bank analysis firm, Keefe Bruyette & Woods, said: "A fair amount of this stuff may be non-marketable. The real issue is this: how much more losses are in the portfolio?"

Citic buys 26% stake in fledgling HK airline

By John Elliott in Hong Kong

THE Peking-controlled China International Trust and Investment Corporation (Citic) has publicly demonstrated its interest in becoming a significant voice in Hong Kong's aviation industry by buying a 26 per cent stake in Dragonair, the colony's fledgling airline.

Citic already has a 12.5 per cent stake in Cathay Pacific Airways, Hong Kong's main airline, and is believed to be exploring the possibility of enlarging its new shareholding in Dragonair. The two airlines might then co-operate after three years of bitter infighting over air traffic rights.

The Citic move follows the decision of Sir Yue Kong Pao, ona of Hong Kong's top tycoons, to sell his 37.8 per cent controlling stake in Dragonair to Mr Ronald Chao, a leading member of a prominent locally-based textile family whose main quoted company is Novel Enterprises. Mr Chao was the original founder of the airline in which he now owns 74 per cent.

Citic bought its 26 per cent stake for a figure in excess of HK$100m from Hongkong and Macau International Investment (HMII), which announced the deal yesterday. HMII was originally used by Hong Kong investors, including Mr Chao, to launch Dragonair.

It was taken over by Peking-controlled interests last year and at present is believed to be in the hands of Xinhua, the New Chinese News Agency which acts as Peking's wide-ranging *de facto* embassy in Hong Kong.

Citic is believed to be negotiating with Mr Chao to extend its shareholding by buying some of his 74 per cent stake. But it is assumed that Mr Chao, who is a British passport holder, would keep a majority interest so that Dragonair continues to qualify for traffic rights into and out of Hong Kong, negotiated by the UK.

In a parallel exercise, Citic is believed to be considering buying a relatively dormant quoted property company called Tylfull from Mr Chao in order to gain a listing on the Hong Kong stock exchange.

Adsteam wins seats on Bell board

By Chris Sherwell in Sydney

ADELAIDE Steamship, the Australian conglomerate headed by Mr John Spalvins, yesterday withdrew its receivership petition against Bell Resources, the 58 per cent-owned Bond Corporation subsidiary, after winning strong board representation under an agreement with Bond.

The withdrawal, still to be confirmed by the Western Australian Suprema Court, removes an immediate threat to the future of Bell Resources, but of itself will not resolve the company's problems, nor those of the besieged Mr Alan Bond.

For Adsteam board representation provides the influence over Bell Resources needed to protect the value of its 19.9 per cent shareholding. According to some analysts this representation, and not actual receivership, was always the main objective of its sudden court move last Friday.

Until Monday a compromise had eluded the two sides. But agreement may have been hastened by intervention from the National Companies and Securities Commission (NCSC), Australia's share market watchdog, which made itself a party to the proceedings.

In a potentially damaging response yesterday, the NCSC expressed concern about undertakings given by Adsteam and Bond Corporation regarding the voting of Bell Resources shares.

These undertakings, it said, may contravene the Acquisition of Shares Code, and it would convey its concerns to the court.

"The commission is yet to be persuaded that these events are in the best interests of the shareholders of Bell Resources Ltd, and will take such action as is appropriate so that the matter is resolved in the interests of all shareholders in Bell Resources Ltd," the NCSC said.

Under the Adsteam-Bond agreement, four seats on an expanded nine-member Bell Resources board will now be held by Adsteam nominees, headed by Mr Spalvins. Another four will be held by Bond Corporation representatives.

Significantly, the chairman will be Mr Geoff Hill, a merchant banker close to Mr Spalvins. There will be no other representative of Bell Resources minority shareholders, currently banded under the wing of Mr Peter Burrows, a local stockbroker.

Before the agreement, Bell Resources had a six-seat board and its members were all Bond Corporation representatives. Adsteam claimed this represented a conflict of interest and led to the controversial A$1.2bn "deposit" by the cash-rich Bell Resources with Bond Corporation which is now under NCSC investigation.

The deposit related to Bell Resources' long-mooted purchase of Bond Corporation's brewing interests, a sale which has become crucial to Bond Corporation's survival. The latest proposed sale involved Lion Nathan, the New Zealand brewer, but was called off last Friday.

The arrival of Mr Spalvins on the board makes an agreed brewing deal more likely to go through, and it is assumed he will now consider alternative arrangements for such a transaction. If these do not materialise, he must find other ways of recovering the A$1.2bn or retrieving as much of the deposit as possible.

A quick resolution to the problems of Bell Resources and the Bond empire therefore seems unlikely.

Adsteam shares plunged another 12 cents to A$5.84 in Sydney, having plummeted 18 cents on Monday. Bond Corporation shares were unchanged at 15 cents, while Bell Resources shares improved one cent to 41 cents.

Pitnes Bowes to cut 1,500 jobs in reshape

By Anatole Kaletsky in New York

PITNEY BOWES, the leading US supplier of mailing equipment and retail and office systems, yesterday announced a restructuring, which would eliminate 1,500 of its 29,000 jobs around the world and result in a $128m pre-tax charge in the fourth quarter.

The company's shares fell $3⅛ to $47⅞ shortly after the announcement.

At the same time Pitney Bowes said it would adopt a new tax accounting standard which would result in a substantial one-time benefit which will be reflected in its 1989 results.

This benefit would largely offset the extraordinary cost of the restructuring programme. In the last quarter Pitney Bowes made net profits of $62m.

Pitney Bowes, whose main products include postage meters, mail-handling equipment, photocopiers, dictaphones and retail pricing machines, said the purpose of the restructuring would be to increase the efficiency of its manufacturing and distribution systems.

The company also said it would put additional emphasis on the use of advanced technology in manufacturing and product design.

As a result about 1,500 positions in its worldwide workforce would become redundant over the next three years. However the company added that most of the reductions would be achieved by a policy of restricted hiring and retirement incentives.

Additional costs would also be incurred on training programmes, both for manufacturing and sales and service employees.

Thomson buys Financial Times of Canada

By Robert Gibbens in Montreal

THOMSON Corporation has bought the loss-making Financial Times of Canada. The price was not revealed, but industry sources estimate it was around C$10m.

The Times will be operated separately from the Toronto Globe and Mail, Thomson's flagship newspaper.

Thomson claims the newspaper will be breaking even within one year.

The newspaper was sold by Southam, a publishing group linked by shareholdings to the Toronto Star.

It had put the Times through several unsuccessful revamps over the past 20 years. Despite that the paper is still expected to show a loss of C$4.5m in 1989.

Southam is retaining certain broadcast and publishing subsidiaries of the Times.

PLM approves plan for £65m investment

By Maggie Urry

PLM, THE Swedish-based packaging group, which is the fifth largest packaging company in Europe, yesterday approved two investment plans intended to strengthen its position in the competitive European beverage can market.

At a board meeting yesterday, Mr Rolf Borjesson was formally installed as the group's chief executive, and the board decided to go ahead with the investments totalling £65m. PLM is owned by Industrivärden, the Swedish investment group, but is financing the expansion internally.

These investments will be seen in the context of a highly fragmented market for packaging in Europe, where no single group has a 10 per cent market share. There has been a wave of consolidation in the industry, and there are only four large drinks cans competitors.

PLM is to build a new beverage can plant at Toulon, in Southern France, which will cost £50m. Initially it will have a capacity of 1.1bn cans a year from two lines, with scope to build a third line raising capacity to 1.6bn cans a year.

PLM has three beverage can plants near Malmö, Sweden, in West Berlin, and at Recklinghausen, West Germany. Mr Borjesson said that since transporting cans for long distances was not generally economic, PLM's plants were not within easy reach of the fast growing markets of Southern Europe.

The Toulon plant will rectify this position, and Northern Italy, Spain and the whole of France can easily be reached by motorway.

The other investment, costing £15m, is in a third production line at PLM's West Berline plant, adding capacity of 400m-500m cans a year to production of 800m cans a year.

Mr Borjesson said that when the group built the Berlin plant in 1983-84, as a joint venture with Ball Corporation, the US can group, it had not realised it was so well positioned strategically. PLM bought out Ball's half share on January 1 this year.

PLM's other packaging interests are in glass plastic packaging, and food cans.

Thomas Cook unit third largest in US

By Roderick Oram in New York

THOMAS Cook Travel Inc. has become the third largest travel agency chain in the US through mergers with Crimson Travel Service and Heritage Travel, two companies particularly strong in the north-eastern states.

New York-based TCTI was acquired by Mr Robert Maxwell, the British publisher, from Dun and Bradstreet earlier this year. It is licensed by Thomas Cook Group, the UK travel business wholly owned by Midland Bank.

US banking laws bar Midland from directly owning the American business.

The mergers are likely to accelerate the consolidation of the US travel agency business which is still heavily populated by proprietorships and small independent companies.

As part of that trend, Crimson and Heritage, both established in 1965, had formed a partnership last year, although remaining separate companies.

TCTI's takeovers will more than double its branches to 325 and push its annual revenues to more than $1.3bn. It declined to give the terms.

In terms of airline ticket sales, TCTI ranked eighth in the US last year with $425m and Crimson/Heritage was sixth with $505m, according to Business Travel News.

"We welcome this move as a key component in our future vision of Thomas Cook's global travel services network," said Mr Peter Middleton, chief executive of Thomas Cook Group.

David and Linda Paresky, the husband and wife team that set up Crimson, will join the TCTI board with Mr Paresky taking over as president and chief executive. Mr Donald Sohn, head of Heritage Travel, will also become a director.

● The Charles Bronfman interests of Montreal have bought 1.2m common shares of Cineplex Odeon Corp, raising their voting holding to 34 per cent from 29 per cent, writes Robert Gibbens.

This compares with the 33 per cent voting stake held by MCA, the big US entertainment group. The acquisition cost around C$10.5m.

INTERNATIONAL CAPITAL MARKETS

Thin US Treasury trading range as Fed stays aloof

By Janet Bush in New York and Rachel Johnson in London

NARROW-RANGE trading continued in the US Treasury bond market yesterday with no important economic news expected until later this week

GOVERNMENT BONDS

and with no apparent change in US monetary conditions.

At midsession, prices were quoted about ½ point higher across the maturity spectrum. The benchmark long bond was ⅛ point up to yield 7.88 per cent.

Yields have hardly changed since the close last Friday when prices rose modestly in response to November's employment release and a sharp downward revision in October's gain in the non-farm payroll.

Hopes of quick action from the US Federal Reserve to move its Fed funds rate lower in response to the figures have, so far, not been rewarded, although the Fed funds rate has slipped to 8¾ per cent from the 8½ per cent which prevailed throughout last week.

Intervention by the Fed in currency markets on Monday, which supplemented dollar sales by the Bank of Japan, has appeared to damp down demand for the dollar against the Japanese yen.

It was quoted at Y144 at midsession in New York, compared with an earlier high of Y144.65.

Currency traders were surprised by the Fed's dollar sales against the yen and attributed the action to a slightly greater degree of sensitivity to Japanese worries about the recent depreciation of the yen against the US currency.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	103-10	-	11.92	12.02	11.49
		9.750	1/98	94-10	+4/32	10.83	10.95	10.62
		9.000	10/08	93-12	+6/32	9.77	9.95	9.70
US TREASURY *		7.875	11/99	100-09	-	7.87	7.86	7.97
		8.125	8/18	102-23	+1/32	7.89	7.88	7.89
JAPAN	No 111	4.800	6/99	95.1653	+0.121	5.41	5.37	5.45
	No 2	5.700	3/07	102.0430	-	5.47	5.51	5.49
GERMANY		7.000	9/99	98.2500	+0.100	7.25	7.26	7.23
FRANCE	BTAN	8.000	10/94	94.1978	+0.092	9.53	9.52	9.42
	OAT	8.125	5/99	93.9100	-0.290	9.10	8.99	8.97
CANADA *		9.250	12/99	97.7500	-0.140	9.60	9.71	9.42
NETHERLANDS		7.250	7/99	96.6300	+0.010	7.75	7.78	7.69
AUSTRALIA		12.000	7/99	94.5008	+0.207	13.02	13.08	13.39

London closing, *denotes New York morning session
Yields: Local market standard Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Meanwhile, the dollar continued to weaken against a strongly appreciating D-Mark, quoted at DM1.7400 at midsession from DM1.7650 earlier. None of the developments in the foreign exchange market had much impact on Treasuries.

■ AN INTERVIEW with Mrs Margaret Thatcher swung the UK gilt market to and fro yesterday, and eventually left it up a ¼ point on Monday's closing levels.

The market opened higher after the Prime Minister told the Financial Times that she had an open mind towards Britain's membership of the European Monetary System. Traders took this as a positive sign, and the market climbed by 15 ticks at the longer end.

The fact that sterling did not join in the fun on the foreign exchanges, however, and Mrs Thatcher's restatement of Madrid policy in the House of Commons later in the day, moved the market back down.

The benchmark Treasury 11¾ per cent bond due 2003/07 had an early high of about 110.17, then fell back to 110.11 to yield 10.28 per cent.

■ GOVERNMENT bond markets have begun the gentle wind down ahead of Christmas. As a trader at Salomon Brothers said: "The pre-Christmas period gets longer each year."

In Germany, a two-tranche repurchase agreement for securities was announced and failed to inject any life into a very dull day. The terms came as expected: the Bundesbank offered banks 35-day funds at a fixed rate of 7.30 per cent, and 63-day funds at variable rates to be decided by bidding in the market today.

Volumes were thin, and prices scarcely moved.

The 8.5 per cent coupon January 1999 bond was fixed at 7.35, a mere basis point up from Monday, and closed almost unchanged. On Liffe, the bund future closed on Monday at 91.19, and traded yesterday at between 91.08 and 91.22. Only 12,000 contracts changed hands – about half the volume of an average day.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 12

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 8⅛ 96	750	100⅛	100⅝	0	-0⅛	8.50
Alberta 9⅛ 95	600	104	104¼	+0⅛	-0⅛	8.42
Austria 9⅛ 95	140	103	103½	0	-0⅛	8.42
B.F.C.E. 8¼ 94	175	99¾	100⅛	0	0	8.36
B.F.C.E. 9¼ 95	150	103⅛	103⅝	+0⅛	0	8.47
Brit. Tel. Fin. 9⅛ 98	250	104⅛	104⅝	+0⅛	+0⅛	8.63
Canada 9 96	1000	103⅝	104⅛	0	+0⅛	8.17
C.C.C.E 9¼ 95	300	103	103½	0	-0⅛	8.44
C.N.C.A 9¼ 95	150	102⅝	102⅞	+0⅛	-0⅛	8.56
Credit National 8¼ 93	200	99½	100	-0⅛	-0⅛	8.31
Credit National 7¾ 92	100	97⅞	98⅜	0	-0⅛	8.31
Credit National 9½ 92	160	†102⅛	102⅝	0	-0⅛	8.48
Dai-Ichi Kan 9⅛ 92	150	102⅛	102⅝	0	0	8.50
Denmark 8¼ 94	150	†99	99½	0	0	8.43
E.E.C. 7 91	100	97½	98	0	0	8.28
E.E.C. 10 93	140	104⅛	104⅝	-0⅛	-0⅛	8.35
E.I.B. 8½ 99	150	99⅝	100⅛	0	+0⅛	8.50
Eurofima 10⅛ 95	100	†104⅝	105	0	0	8.38
Elec. De France 9 98	200	102⅝	103⅛	0	0	8.47
Elec. De France 9½ 99	200	105⅛	105⅝	+0⅛	-0⅛	8.60
Finland 9 96	250	102⅛	102⅝	0	-0⅛	8.49
Finn. Exp. Cd. 8⅛ 92	200	100	100½	-0⅛	-0⅛	8.34
Finn. Exp. Cd. 9¼ 95	200	103⅝	104	0	0	8.53
Ford Motor Credit 8 91	250	†99	99⅜	0	0	8.59
Gen. Elec. Cap. Corp. 9 93	500	†101⅞	102⅜	0	-0⅛	8.34
Gen. Elec. Cap. Crp. 10 1/2 91	300	102⅛	102½	-0⅛	-0⅛	8.48
G.M.A.C. 8¼ 96	500	†99⅝	100⅛	0	0	8.78
G.M.A.C. 9 96	300	100⅝	101⅛	-0⅛	-0⅛	8.80
Gen. Mtrs. Corp. 9¼ 92	200	101⅝	102	0	0	8.36
IBM Credit Corp. 8⅛ 92	400	100⅛	100⅝	0	-0⅛	8.41
IBM Credit Corp. 8⅞ 91	250	100½	101	0	-0⅛	8.40
IBM Credit Corp. 9 92	250	101⅝	102	0	-0⅛	8.19
IBM Credit Corp. 9½ 92	250	101⅝	102⅛	-0⅛	-0⅛	8.43
Italy 8⅛ 94	1500	100⅛	100⅝	0	-0⅛	8.39
Italy 9½ 95	1000	104⅜	104⅞	+0⅛	+0⅛	8.47
Italy 9⅛ 99	1000	105⅞	106⅛	-0⅛	-0⅛	8.64
Itoh C. W/W 4¼ 94	1000	†111	112	+1	+0⅛	1.94
Japan Dev. Bank 10 96	200	107⅛	107½	-0⅛	-0⅛	8.47
KFW Intl. Fin. 9 94	300	101⅞	102⅜	0	-0⅛	8.42
L.T.C.B. of Japan 9⅛ 92	200	101⅝	102	0	-0⅛	8.58
Nippon Tel. & Tel. 9⅛ 98	250	104⅛	104⅝	-0⅛	-0⅛	8.63
Norway 9¼ 93	500	101⅛	101⅝	0	-0⅛	8.18
Portugal 8⅛ 91	300	†99	99½	-0⅛	+0⅛	8.84
Sumitomo Corp. W/W 4 93	1500	125⅝	126⅝	+0½	+1⅞	-2.87
Sweden 9¼ 96	200	101⅝	102⅛	0	-0⅛	8.34
Toyota 9⅛ 91	200	101⅝	102⅛	0	-0⅛	8.45
Toyota Mtr. Corp. W/W 4 93	1500	†105⅛	106½	-0½	-1	2.19
Victorian Rep 11⅛ 92	150	105⅛	106⅛	0	-0⅛	8.73
World Bank 8⅛ 99	1500	101⅛	101⅝	0	0	8.39
World Bank 9 97	300	102⅝	103⅛	-0⅛	-0⅛	8.46
World Bank 9 93	300	102	102⅛	-0⅛	-0⅛	8.26
World Bank 9¼ 98	300	104⅛	104⅝	0	-0⅛	8.53
World Bank 9⅛ 99	500	106⅛	106⅞	-0⅛	0	8.52
World Bank 9⅛ 96	300	106⅛	106⅝	+0⅛	+0⅛	8.38

Average price change... On day +0 on week +0

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 6 94	200	91⅛	92⅛	-0⅛	+0⅛	7.96
Austria 6⅛ 99	750	94	94⅜	0	+0⅛	7.62
Bk. Frgn. Econ. USSR 7 96	750	†93⅝	94⅛	0	+0⅛	8.19
Bank of Tokyo 5⅛ 93	100	93⅛	94	0	0	8.02
Commerzbank o/s. 5⅛ 93	300	93⅛	93⅝	-0⅛	-0⅛	7.83
Credit Foncier 6⅛ 99	500	93⅛	93⅝	0	-0⅛	8.77
E.I.B. 6⅛ 99	600	90⅝	91½	0	+0⅛	7.63
E.I.B. 6½ 99	300	94⅛	95⅛	+0⅛	+0⅛	7.31
E.I.B. 6⅛ 96	600	95⅛	96⅛	0	+0⅛	7.43
E.I.B. 6⅞ 95	300	97⅛	98⅛	0	+0⅛	7.30
Euro.Coal & Steel 5⅞ 97	175	89½	90⅛	0	+0⅛	7.76
Eurofima 6¼ 96	100	91⅛	92⅛	0	0	7.88
Elec De France 5⅛ 97	300	90⅛	91	-0⅛	-0⅛	7.39
Hydro-Quebec 6¼ 99	300	92⅛	93⅛	0	-0⅛	7.85
Japan Dev. Bk. 5⅛ 95	300	90⅛	90⅞	0	0	7.58
Japan Finance 5⅛ 97	100	88⅜	89	-0⅛	-0⅛	7.88
I.A.O.B. 7⅛ 99	300	96⅞	97½	0	+0⅛	7.66
Ireland 6⅛ 97	300	91	91½	-0½	-0⅛	8.11

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	99⅞	100⅛	+0⅛	0	6.09
Canada 5⅛ 93	80	98⅜	99	+0⅛	+0⅛	5.97
Eurofima 5 1995	20	95⅜	95⅞	-0⅛	-0⅛	6.00
E.I.B. 4⅞ 93	30	96⅜	96⅞	0	0	6.09
Ireland 5⅛ 93	90	96⅛	96⅝	0	-0⅛	6.29
Norway 5⅛ 95	50	96⅜	96⅞	-0⅛	-0⅛	5.85
Sweden 4⅝ 93	50	95⅜	95⅞	0	0	6.03
World Bank 5⅛ 98	10	94⅞	95⅜	-0⅛	0	5.90
World Bank 7 94	20	103⅞	104⅜	-0⅛	0	5.95

Average price change... On day +0 on week 0

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10⅛ 94 C$	150	96⅛	97⅛	0	+0⅛	11.07
Abbey Nat. 11⅛ 93 £	100	96	96½	+0⅛	+0⅛	13.12
Aegon 7⅛ 92 FL	100	100⅛	100⅝	0	0	7.86
Alg. Bk. Ned. 5⅛ 93 FL	200	93	93⅜	0	0	8.18
Austria 7½ 94 ECU	100	93½	94½	+0⅛	0	9.31
Barclays Aus. 13½ 91 A$	100	97⅜	98⅜	-0⅛	+0⅛	14.74
Belgium 8⅛ 94 Ecu	150	95⅛	95⅞	0	0	9.41
Bell Canada 10⅞ 04 C$	200	101⅛	102⅛	0	+0⅛	10.61
BP Capital 9⅛ 95 £	100	91½	92⅛	0	+0⅛	12.90
British Airways 10 98 £	100	89⅛	89⅝	+0⅛	+0⅛	12.06
Brit. Telecom 9½ 95 £	150	91⅝	92⅛	0	+0⅛	12.66
Comm. Bk. Aust. 12⅛ 93A$	100	†93⅛	94	-0⅛	+0⅛	14.99
Comm. Bk. Aus. 13⅛ 94 NZ$	60	†104	105	0	0	12.38
Credit Foncier 9 96 Ecu	100	98	98⅛	+0⅛	0	9.35
CrLocalFrance 9⅛ 92Ecu	100	99⅛	99⅝	+0⅛	+0⅛	9.49
Dent. Bk. Aus. 13⅛ 93 A$	125	†96⅛	97⅛	0	+0⅛	14.41
Deutsche Bk. Fin. 15 94 A$	100	†103⅛	103⅝	-0⅛	+0⅛	13.85
Elec. De France 9⅛ 99C$	150	95⅜	96⅛	+0⅛	+0½	10.43
E.I.B. 7 96 LFr	100	†95½	96½	+1	+0½	7.84
E.I.B. 7⅛ 99 FL	150	94½	95	0	-0⅛	7.91
E.I.B. 9 99 Ecu	150	98⅛	99⅛	+0⅛	+0⅛	9.17
Eurofima 7⅛ 94 Ecu	100	94⅛	95⅛	+0⅛	+0⅛	9.16
Export Dv. Crp. 8⅞ 92Ecu	100	98⅜	98⅞	+0⅛	+0⅛	9.38
Fed. Bus. De. Bk. 9 94 Ecu	100	98⅛	98½	-0⅛	0	9.46
Fed. Bus. Dv. Bk. 9⅛ 92 C$	75	†97⅛	97⅝	-0⅛	0	10.89
Ferr. Stato 7⅛ 93 Ecu	100	94	94½	0	-0⅛	9.75
Ford Cr. Can. 10⅛ 95 C$	100	†98⅜	99⅛	+0⅛	+0⅛	11.11
Ford Cred. Can. 10⅞ 96C$	125	99½	100⅛	-0⅛	+0⅛	10.91
Ford Cred. Fund. 10⅛ 93£	60	94⅛	94⅝	+0⅛	+0⅛	12.64
G.M.A.C. Canada 11 3/4 94C$	100	102	102⅛	-0⅛	+0⅛	11.07

* No information available-previous day's price
† Only one market maker supplied a price

Philippine fund opens as Manila market falls

By Deborah Hargreaves

AMID FEARS in Manila that foreign investors will pull out of the country after last week's coup attempt, a new Philippine investment fund started trading on the London Stock Exchange yesterday.

The First Philippine Investment Trust, which is managed by Tyndall Trust Managers, starts life at an inauspicious time as the Manila market has dropped by 12 per cent since it reopened on Monday.

Mr Timothy Pickford, UK sales manager for Tyndall, believes the £25m ($40m) fund will start out in a good buying position. In contrast with the three other Philippine funds that began trading earlier this year, Tyndall has still to invest all its cash and will be buying at lower stock market levels.

The fund, which will have 50m shares with warrants, will concentrate on a mix of Philippine stocks. It will aim to buy into some of the privatisation issues soon to emerge from the country, including Philippines Electric, Manila Airlines and Manila Hotels.

The fund managers are concerned about stability in the Philippines, but the company is taking a long-term, sanguine view on market growth.

Banque Indosuez, Nomura and Jardine Fleming have each launched Philippines funds this year.

Two of them are trading at a discount to net asset value as a result of the coup attempt and the subsequent fall in share prices, although shares dropped by less than many investors had expected.

Toronto SE firms' profit tops C$37m

THANKS to a flurry of late summer underwriting, member firms of the Toronto Stock Exchange posted a combined net profit of C$37.1m (US$31.9m) for the first nine months of 1989, against a loss of C$47.2m a year earlier, writes Robert Gibbens.

For the first half this year there was a loss of C$1.1m.

Member firms' payrolls in the nine months dipped by 5.6 per cent against a year earlier. Employment is expected to decline further in the fourth quarter, largely a result of the after-effects of the big stock market shakeout in October.

INTERNATIONAL CAPITAL MARKETS

Chicago faces a strengthening challenge

Deborah Hargreaves on the increasingly international nature of derivative markets

THE Chicago Mercantile Exchange believes the future of futures is a black box called Globex, which will process trades far away from the frenzy of the industry's bustling trading floors.

Although even Globex's most ardent proponents do not expect the system to replace the blood, sweat and tears of pit trading during the next decade, full onscreen trading could well emerge during the early part of the 21st century.

It is a chastened futures industry that enters the 1990s, after a widespread government probe into trading fraud in Chicago — the industry's birthplace — cast a cloud over the massive growth in derivative products this decade.

The FBI investigation into trading abuse is prompting Congress to clamp down on oversight of the industry, amid calls for futures trading to become more automated and thus easier to regulate. Many of the industry's critics are sounding the death knell for Chicago's anachronistic trading methods.

However, the FBI probe has not frightened users of Chicago's exchanges, although it initially flattened some of the market's effervescence. Both of Chicago's leading exchanges — the CME and the Chicago Board of Trade — are set to outstrip last year's contract volume. While the CBOT will not beat its record 145m lots by much, its smaller rival, the CME, has seen a 40 per cent leap in activity this year.

But as the industry becomes more global, Chicago's longstanding role at the helm of the world derivatives market is facing a strong challenge.

The city's two key exchanges now hold half of world futures volume, as opposed to 70 per cent not so long ago. This lead is fast being eroded by nascent exchanges in Europe and Japan.

Stock index futures trading in Tokyo has already surpassed the dollar value of its US ancestors and European exchanges, if they can cement their appeal to international users, stand to gain from any disaffection with Chicago.

Congress, in a flurry of reformist zeal, risks pushing business offshore if, by stiffening regulation, it makes Chicago more expensive than its competitors. Europe and Japan could prove a formidable competitive force in the 1990s.

Europe's two leading exchanges — the London International Financial Futures Exchange and France's Matif — have presided over rapid growth in futures trading, to 6m contracts in October compared with Chicago's 20m. A link between Europe's markets, possibly creating a European array of products in the run-up to 1992, could have a strong pull on large international users.

One of the main benefits of the younger futures markets in Japan and Europe is their technological expertise, which places less loyalty on open-outcry. Fully automated exchanges are well placed to cater for users' 24-hour needs without having to wrestle with new, after-hours trading systems such as Globex.

A less visible, but more potent, competitor for the established futures exchanges is the burgeoning over-the-counter market in tailor-made derivatives.

Exchange volume is already estimated to be just 10 per cent of the value of the massive off-exchange market, where products are geared closely to institutions' needs.

Wherever they are traded, growth in derivative products over the next decade is inevitable — in spite of fraud allegations — as institutions utilise them as a central part of risk-hedging strategies.

Chicago's markets have come under much criticism for their casino-like atmosphere and free-wheeling reputation. Indeed, in the heady pre-crash days of 1987 futures imparted a false sense of security to institutions which believed they could hedge risk away.

When an avalanche of sell orders swamped Chicago on Black Monday, the market's thinly capitalised local traders crumbled under the weight and futures tumbled, dragging stocks down too.

The irony, in the sophisticated world of derivative products, is that the "local" or independent trader on the floor in Chicago is left to absorb the risk of billions of dollars of portfolio money shifted many thousands of miles at the press of a button.

The industry has proved a convenient scapegoat for past wide swings in prices on the underlying stock market and it has shouldered much of the blame for exacerbating stock price falls during the crash.

As Mr Desmond Fitzgerald, head of arbitrage at Mitsubishi Finance in London, believes: "Like any form of insurance, futures can decrease smaller risk but leave institutions open to big risks." Far from taking risk out of the system, financial futures give institutions a way to take on more than ever.

However, in spite of the barrage of blame dumped on Chicago for speeding a downfall in underlying stocks, studies into the causes of stock market volatility have proved inconclusive.

Exchanges have moved quickly to try to defuse the row over volatility, instituting a series of circuit-breakers to apply a brake to any rapid price change. But volatility is the very lifeblood of the futures markets and to muzzle it is to create a dull and profitless market. Regulation must tread a thin line between safety and suffocation.

As futures exchanges contemplate the decade ahead, what they may see increasingly is the growing institutionalisation of their markets. Local and independent traders may be squeezed out as the stakes become higher in a market dominated by billion-dollar orders.

As institutions come to the market to trade with other bodies of the same weight, futures trading will be robbed of much of its colourful allure. Computer trading removes Chicago's folksy image altogether.

As the industry becomes more sophisticated, Chicago's existing esoteric way of trading remains an anachronism.

Austria launches biggest issue with $400m straight

By Andrew Freeman

INTERNATIONAL BONDS

JUST WHEN THEY thought it was safe to start relaxing, syndicate managers were jerked into action by the launch of a $400m sovereign 10-year issue for the Republic of Austria, the largest straight issue by the borrower.

The deal was underwritten and syndicated by Daiwa with an 8½ per cent coupon and the bonds were reoffered to investors at 99⅛, giving a spread over US Treasuries of 58 basis points.

Daiwa is not strongly established among the small group of lead managers that dominates the highly competitive dollar market for sovereign borrowers. This deal went a long way to pushing it into that group.

An official said Daiwa had taken more than half the bonds and suggested that this spoke for itself. Moreover, within half an hour of announcing the issue an impressive group of co-lead managers had been assembled.

However, there were objections from rivals to the use of the reoffer structure, with several syndicate managers pointing out that the issue was basically a traditional bought deal, the terms of which were not reached by a consensus of participants but were imposed on the market. Fees for syndicate members were 30 basis points.

Several houses commented that Daiwa might not benefit from the goodwill that can accompany a consensus reoffer structure, making placement harder. Soon after launching the deal it appeared that at least one block of $10m was dumped with the brokers.

Nevertheless, this did not appear to be adversely affecting the issue, and most of the syndicate members said they were able to earn their fees by placing their bonds at the issue price.

Traders said the bonds were fairly priced, and that institutional accounts were quickly interested in the paper. Daiwa reported strong early sales, but had not broken syndicate before the close of business in London.

The borrower was reported to have been seeking yen funds, implying that yesterday's deal was swapped into fixed-rate yen. Daiwa confirmed this, and said an exceptional swap had been located to reach the borrower's desired funding level.

At market rates, traders said, Austria could only have reached its target with the aid of a large subsidy, possibly of up to $3m.

Daiwa denied there had been any subsidy involved in the deal, but would not elaborate on the swap. There was speculation that either Mitsui or Norinchukin, both co-leads on the issue, had been the swap counterparty.

The Austria issue over-shadowed the launch for Kredietbank International Finance of the first Euro-Irish punt, a I£50m three-year deal brought by the parent bank.

The bonds, syndicated on a take-and-pay basis, had an interested reception and were quoted inside fees at less 1.30 bid.

Kredietbank said it had obtained permission for an issue from the Bank of Ireland some time ago, and had been hoping to bring a deal for another borrower. Proceeds were temporarily unswapped.

● THE Italian Treasury is to offer 750m Ecu-denominated bills at a maximum gross rate of 12.8 per cent with a maturity of 385 days, Reuter reports.

Subscriptions for the offer close on December 18. The Treasury's November offer of Ecu1bn of 371-day bills was offered at a maximum gross rate of 12.10 per cent.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Vitamin Ltd.†◆	60	(c)	100.18	1993	10/8	Nippon Credit Int.
Republic of Austria◆	400	8½	99½	2000	30/10	Daiwa(Europe)
CANADIAN DOLLARS						
Finnish Export Credit◆	100	Zero	52.00	1997	1⅜/⅞	Wood Gundy
SWISS FRANCS						
Komai Tekko§(b)	80	¼	100	1995	na	Nomura Bank(Switz)
Nokia Corp◆	100	6¾	100¾	1996	2⅛	Nordfinanz-Bank(Zurich)
D-MARKS						
Issue update: LKB Baden-Wuerttemberg†◆	600	(a)	100	1999	20/10	Trinkaus & Burkhardt
FRENCH FRANCS						
Issue update: Interfinance Credit Nat.◆	800	10¼	100.80	1991	⅜/½	Credit Lyonnais
YEN						
Baltica Bank◆(e)	15bn	6.8	101.872	1995	1⅞/1¼	Daiwa(Europe)
Kingdom of Denmark◆	25bn	5¾	101¾	1995	1⅞/1¼	LTCB Int.
State Bank of NSW◆	15bn	5¾	101¼	1993	1⅜/⅞	Nomura Int.
Landeskreditbank◆	7.2bn	5¾	101¼	1992	1⅜/⅞	Morgan Stanley Int.
Skopbank◆	10bn(d)	(d)	101⅜	1993	1⅜/⅞	IBJ Int.
IRISH POUNDS						
Kredietbank Int. Finance◆	50	11	101.35	1993	1⅜/⅞	Kredietbank NV

◆Final terms. †Floating rate note. §Convertible. a)6-month Libor flat. b)Put to yield 3.213%. c)6-month Libor plus 19bp. d)Y5bn on tap. Nikkei-linked coupon. e)Call option at par on 12 April 1991.

KPMG warns on swap-loss provisions

By Stephen Fidler, Euromarkets Correspondent

BANKS facing potential losses on swap transactions with UK local authorities should consider making immediate provision for such losses, according to KPMG Peat Marwick McClintock, the accounting firm.

In a judgment last month, the High Court ruled that 592 swap and other transactions undertaken by Hammersmith and Fulham Council, with a principal value of about £6bn, were unlawful. An appeal is set for the middle of January, although it may take some time for a result to emerge.

If the transactions were found to be enforceable, the council would face losses of more than £100m ($160m) at current interest rates.

In an attempt to take a lead on the issue, KPMG's banking and finance group has concluded in one of its newsletters: "It is hard to escape the conclusion that prudence (in its technical accounting sense) would dictate an immediate provision for losses... even if uncertainty remains as to the ultimate outcome."

The newsletter notes that if the ruling is upheld it could affect both outstanding transactions and those ostensibly completed. Potential losses to banks have been estimated elsewhere as being as high as £400m to £500m.

Scandinavian Bank, the London-based consortium bank, has said it intends to make provisions relating to these contracts, while other institutions, including Midland, are understood to have included some provisions related to them in their mid-year statements.

KPMG said banks were left confused and uncertain after the judgment for several reasons. It was not known how the ruling would be altered, if at all, by the appeal, or how to quantify the losses, given that repayments could be demanded for past transactions. It was also difficult to predict the possible outcome of claims against third parties. All of this made a rational approach to risk management unworkable, it said.

It added that in the UK the "tax effect of any such provisions is less than comfortably clear." Its view was that such provisions should be deductible for tax purposes and the firm urged the Inland Revenue to clarify the position.

"With the year-ends of many banks now approaching, bank management may wish to seek fresh legal opinion to assist in determining the probability of any potential loss.

Such legal opinion should cover contracts previously settled as well as open ones," it concluded.

Daiwa launches fund for Asia

DAIWA Securities, the Japanese securities house, has successfully launched an investment fund aimed at Asian and Pacific stock markets, AP-DJ reports.

The company described the response to its offer as "overwhelming," with receipts pushing the total to $132m, well above the original target of $100m. It plans to launch a $50m Malaysia fund early next year and may set up Indonesia and Singapore funds after that.

The open-ended, 10-year Asia-Oceania Fund will focus on Asian-Pacific stock markets, with about 30 per cent of the fund to be invested in Singapore and Malaysia equities.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS Figures in parentheses show number of stocks per section	Tuesday December 12 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Dec 11 Index No.	Fri Dec 8 Index No.	Thu Dec 7 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (205)	904.23	+0.2	12.57	4.73	9.76	30.71	902.88	899.81	895.12	756.45
2	Building Materials (28)	1080.27	−0.2	14.56	5.23	8.56	40.71	1082.38	1091.53	1083.89	906.51
3	Contracting, Construction (37)	1467.83	+0.3	16.93	5.30	7.75	56.19	1462.54	1460.52	1457.09	1410.10
4	Electricals (10)	2609.21	+0.4	10.46	4.77	12.01	84.46	2598.80	2580.08	2570.23	2240.13
5	Electronics (30)	1930.70	+0.3	9.52	3.76	13.51	52.19	1924.69	1907.74	1901.60	1721.06
6	Mechanical Engineering (53)	468.31	−0.5	12.37	4.89	9.85	16.44	470.44	469.09	461.59	397.06
8	Metals and Metal Forming (6)	467.31	+1.4	25.23	6.41	4.47	23.02	460.95	464.09	462.74	450.03
9	Motors (17)	375.39	+0.5	10.83	4.65	10.92	11.84	373.69	371.04	370.16	257.01
10	Other Industrial Materials (24)	1746.77	+0.7	9.54	4.34	12.35	55.27	1734.49	1723.26	1724.74	1284.15
21	CONSUMER GROUP (185)	1313.71	+0.3	8.65	3.48	14.49	33.79	1309.97	1317.61	1313.28	993.64
22	Brewers and Distillers (23)	1508.80	+0.4	9.43	3.48	13.17	36.48	1502.16	1515.22	1501.37	1103.71
25	Food Manufacturing (20)	1153.76	+0.5	9.39	3.83	13.62	31.60	1148.17	1150.80	1146.43	894.50
26	Food Retailing (15)	2302.00	−0.3	9.23	3.15	14.33	52.06	2309.33	2351.52	2337.93	1747.16
27	Health and Household (14)	2717.54	+0.5	5.81	1.91	20.51	46.95	2705.05	2703.37	2697.26	1752.11
29	Leisure (35)	1622.60	−0.4	8.26	3.61	14.94	44.41	1628.37	1633.97	1630.75	1322.04
31	Packaging & Paper (14)	546.96	+0.3	12.04	5.28	10.40	18.37	545.22	545.06	542.84	501.00
32	Publishing & Printing (18)	3790.59	+1.1	8.33	4.63	15.50	121.48	3750.95	3763.37	3763.88	3103.80
34	Stores (32)	789.05	+0.2	11.15	4.73	11.68	25.98	787.28	796.87	798.94	664.02
35	Textiles (14)	526.52	−0.2	10.91	5.64	11.11	22.08	527.58	530.23	527.53	447.29
40	OTHER GROUPS (95)	1171.35	+0.2	10.33	4.46	11.73	39.90	1168.58	1180.22	1172.40	876.66
41	Agencies (17)	1569.89	----	6.75	2.32	18.20	27.29	1570.77	1593.12	1594.40	998.69
42	Chemicals (22)	1215.86	+0.2	12.47	5.26	9.43	47.73	1212.85	1218.14	1216.52	994.65
43	Conglomerates (14)	1642.71	----	10.74	5.25	10.95	68.01	1643.67	1673.85	1683.90	1216.20
45	Transport (13)	2279.09	+0.6	10.45	4.22	12.20	60.85	2264.47	2280.74	2280.78	1823.34
47	Telephone Networks (2)	1185.54	+0.5	10.71	4.32	12.14	38.54	1179.15	1196.81	1159.38	990.31
48	Miscellaneous (27)	1922.23	----	9.14	4.28	12.34	65.42	1922.13	1923.17	1927.62	1163.77
49	INDUSTRIAL GROUP (485)	1181.08	+0.3	10.10	4.07	12.20	35.72	1178.02	1183.90	1178.29	913.91
51	Oil & Gas (15)	2413.60	+1.3	8.97	4.75	14.73	96.43	2383.02	2403.49	2354.52	1743.69
59	500 SHARE INDEX (500)	1283.79	+0.4	9.94	4.17	12.52	40.70	1278.55	1285.61	1276.58	984.11
61	FINANCIAL GROUP (120)	833.16	+0.6	–	5.09	–	30.41	827.96	827.35	828.09	662.73
62	Banks (9)	857.86	+0.8	20.13	5.86	6.53	36.37	851.33	846.39	848.31	652.20
65	Insurance (Life) (7)	1398.86	+0.3	–	4.75	–	47.56	1394.77	1389.07	1388.98	908.52
66	Insurance (Composite) (7)	712.84	+1.0	–	5.30	–	28.34	705.66	704.61	705.14	521.45
67	Insurance (Brokers) (7)	1140.99	----	6.60	5.51	20.16	47.09	1140.40	1137.75	1138.45	871.76
68	Merchant Banks (11)	474.55	−0.2	–	3.63	–	11.59	475.62	473.56	466.65	389.82
69	Property (49)	1215.93	+0.7	7.52	3.52	16.84	30.32	1207.87	1221.94	1227.60	1208.05
70	Other Financial (30)	330.77	+0.3	12.37	6.55	10.60	15.82	329.86	330.58	329.38	342.84
71	Investment Trusts (69)	1286.37	----	–	2.72	–	25.23	1286.21	1288.26	1283.55	900.58
81	Mining Finance (1)	740.36	+0.2	10.08	3.64	11.15	22.25	739.07	732.66	712.13	532.84
91	Overseas Traders (7)	1540.00	+0.1	8.97	5.25	12.77	60.11	1537.71	1535.78	1517.03	1253.44
99	ALL-SHARE INDEX (697)	1177.08	+0.4	–	4.27	–	37.79	1172.04	1176.92	1169.83	904.36

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 11	Dec 8	Dec 7	Dec 6	Dec 5	Year ago
FT-SE 100 SHARE INDEX♦	2363.5	+12.1	2369.7	2355.0	2351.4	2363.5	2346.7	2353.7	2327.5	1752.6

FIXED INTEREST

	PRICE INDICES	Tue Dec 12	Day's change %	Mon Dec 11	xd adj. today	xd adj. 1989 to date
	British Government					
1	Up to 5 years	116.28	+0.14	116.11	–	11.54
2	5-15 years	130.30	+0.28	129.93	–	12.00
3	Over 15 years	138.81	+0.35	138.33	–	13.64
4	Irredeemables	157.47	+0.33	156.96	–	13.66
5	All stocks	128.12	+0.24	127.81	–	12.20
	Index-Linked					
6	Up to 5 years	140.93	+0.12	140.76	–	2.79
7	Over 5 years	139.72	+0.36	139.22	–	3.34
8	All stocks	139.69	+0.34	139.22	–	3.28
9	Debentures & Loans	105.59	−0.18	105.78	–	10.92
10	Preference	84.91	+0.09	84.83	–	6.39

	AVERAGE GROSS REDEMPTION YIELDS		Tue Dec 12	Mon Dec 11	Year ago (approx.)
	British Government				
1	Low Coupons	5 years	10.35	10.36	10.45
2		15 years	9.73	9.77	9.61
3		25 years	9.63	9.67	9.15
4	Medium Coupons	5 years	11.22	11.29	10.83
5		15 years	10.18	10.14	9.81
6		25 years	9.72	9.76	9.33
7	High Coupons	5 years	11.36	11.43	10.98
8		15 years	10.31	10.33	9.94
9		25 years	9.87	9.89	9.38
10	Irredeemables†		9.71	9.74	8.99
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs	3.66	3.69	3.60
12	Inflation rate 5%	Over 5 yrs	3.63	3.65	3.74
13	Inflation rate 10%	Up to 5 yrs	2.83	2.86	2.46
14	Inflation rate 10%	Over 5 yrs	3.47	3.49	3.38
15	Debs & Loans	5 years	12.97	12.94	11.41
16		15 years	12.49	12.46	11.13
17		25 years	12.13	12.10	10.86
18	Preference†		10.79	10.80	10.42

♦Opening index 2355.0; 10 am 2368.7; 11 am 2366.7; Noon 2363.5; 1 pm 2363.1; 2 pm 2363.1; 3 pm 2364.5; 3.30 pm 2361.4; 4 pm 2360.8 (a) 10.04am (b) 9.00am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	84	9	9
Corporations, Dominion and Foreign Bonds	18	8	23
Industrials	365	294	937
Financial and Properties	185	117	383
Oils	24	28	42
Plantations	0	1	9
Mines	57	27	78
Others	66	98	82
Totals	799	574	1,563

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or −	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
§75	F.P.	–	86	81	‡Air London 5p	86		R2.25	2.5	3.5	13.1
240	100	–	150	100	Anglian Water	148½		R15.3	2.3	7.1	7.0
§20	F.P.	–	25½	18	*Autos of Distinction 5p	18		–	–	–	–
–	F.P.	–	107	76	BTR Warrants 1993/94	106		–	–	–	–
§142	F.P.	–	150	145	‡Baris Hldgs 10p	145		R5.5	2.7	5.0	9.2
†	F.P.	–	102	95	‡[illegible] Devlpmts 50p	100		1.8	5.9	2.4	9.3
§42	F.P.	–	45	43	*Biocure 1p	43		–	–	–	–
Ir56	F.P.	2/11	71	56	‡Cambridge Grp. Ir5p	65		Q7½%	14.8	0.5	16.7
†	F.P.	–	25	21	*Courtyard Leisure 5p	21	−1	–	–	–	9.0
§	F.P.	–	8¾	5¾	EFM Dragon Tst Wrrts '05	8¾		–	–	–	–
50	F.P.	–	53	38	‡Essex Furniture 5p	38	−1	a1.88	2.3	6.6	8.6
707	F.P.	–	968	865	Euro Disneyland FFr10	940	−15	–	–	–	–
–	F.P.	–	20	5	Europa Minrls. Wrnts.	20		–	–	–	–
§50	F.P.	–	51	49	European Project IT 10p	49		–	–	–	–
–	F.P.	–	28	18	Do. Warrants	27	−1	–	–	–	–
§130	F.P.	–	138	130	Fired Earth Tiles 10p	131	+1	R4.87	2.2	5.0	10.7
–	F.P.	–	49	45	First Philipne. Inv. Tst.	46		–	–	–	–
–	F.P.	–	20	10	Do. Warrants	10		–	–	–	–
105	F.P.	30/11	107	98	Hays 1p	106		W3.0	2.8	3.8	12.3
–	F.P.	–	29	22	Isotech Johnsen Wrrt.	25	−1	–	–	–	–
§38	F.P.	–	42	38	*Image Store Hldgs. 10p	42		–	–	–	–
§	F.P.	–	975	850	JF Philippine Fd $1	850	−12	–	–	–	–
§	F.P.	–	356	319	Do. Warrants	356	+12	–	–	–	–
§75	F.P.	–	78	73	‡Micklegate Group 1p	73		R2.25	3.4	4.0	8.8
††	F.P.	–	81	66	*Mid-States	70		–	–	–	–
1	F.P.	–	£15½	£13¼	Millicom Inc. 1c	£15½	+1⅛	–	–	–	–
240	100	–	142	100	North West Water Grp.	135		R15.7	2.3	7.6	6.4
240	100	–	168	100	Northumbrian Water	157		R16.1	3.6	7.2	4.2
§50	F.P.	–	52	40	Pacific Horizon Inv 10p	47		–	–	–	–
–	F.P.	–	20	17	Do. Warrants	19		–	–	–	–
§130	F.P.	–	143	115	Partridge Fine Arts 10p	117	−1	R3.5	2.5	4.0	10.8
†	F.P.	–	83	75	Pendragon	78	+1	W4.25	2.6	7.3	7.1
10	F.P.	–	11½	10	Prospect Inds. 5p	11	−½	R0.3	2.4	3.6	9.3
100	F.P.	–	120	100	*Ramsden's (Harry) 10p	115		R4.5	1.1	5.2	23.1
†158	F.P.	–	162	159	‡Regal Hotel Grp 2p	160		–	–	–	–
240	100	–	135	100	Severn Trent	131		R14.85	3.0	7.3	4.6
240	100	–	148	100	South West Water	147		R17.43	2.9	8.1	4.7
240	100	–	145	100	Southern Water	141		R15.03	2.5	7.1	3.2
†	F.P.	–	£30⅝	£27½	Stora B Free Sk25	£29⅝	+⅝	Q40%	5.0	3.3	7.9
§25	F.P.	–	40	25	‡Storm Group 1p	36	−1	–	–	–	61.3
†	F.P.	–	16½	14½	‡Surrey Group 5p	15	−½	R0.23	3.3	1.9	14.6
□	F.P.	12/1	543	520	TR High Inc Tst Units	543		M6.0	–	7.7	–
240	100	–	140	100	Thames Water	136		R14.58	2.4	7.0	6.7
£2400	£1000	–	£1430	£1000	Water Package Units	£1395		–	–	–	–
240	100	–	144	100	Welsh Water	141		R16.75	2.9	8.0	4.8
240	100	–	154	100	Wessex Water	154		R15.21	2.6	6.9	6.1
240	100	–	151	100	Yorkshire Water	149		R15.42	2.4	7.1	6.5

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price £	+ or −
98.94	F.P.	–	99¼	97	British Inv. Tst. 11⅛pc Sec. Db 2012	97⅞	+⅜
89.65	£30	–	29⅝	29½	Brixton Ests. 10⅝pc 1st Mtg Db 2012	29⅝	+⅛
100p	F.P.	22/12	102p	97p	Caird Grp. 7p Cm. Cv. Pf. 2009 10p	98p	
§99.68	F.P.	–	100⅛	97½	Foreign & Col. 11¼pc Db. 2014 £100	99¼	+⅛
100p	F.P.	–	100p	93p	MB Grp. 7.25p Cv. Cm. Rd. Pf. 15p	95p	

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or −
111	Nil	19/1	13pm	5pm	‡Allied Ins. Brokers 10p	5pm	−3
12	Nil	19/1	3pm	½pm	‡AmBrit Intl. 5p	1¼pm	+½
11	Nil	–	3pm	1½pm	Assoc. Energy Servs. 5p	3pm	
40	Nil	5/1	11pm	5pm	CRT Group 10p	5pm	
30	Nil	8/1	3pm	2¼pm	‡Crossroads Oil 5p	3pm	
Ir70	Nil	12/1	12pm	6pm	European Leisure	9pm	
¥295	Nil	17/1	40pm	25pm	Jacob (W & R)	25pm	
230	Nil	17/1	40pm	38pm	‡Jeyes Group 5p	40pm	+2
10	Nil	–	6½pm	4pm	‡Surrey Group 5p	4pm	−½
205	Nil	–	4pm	3pm	Wilkes (J.)	3pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. H Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ◊ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. * Third Market.

TRADITIONAL OPTIONS

- ● First Dealings Dec 4
- ● Last Dealings Dec 15
- ● Last Declarations Mar 8
- ● For settlement Mar 19

For rate indications see end of London Share Service

Calls in: ASDA, Aviva, Brit. Aero., Grampian Hldgs., Kelt, Oliver Res., Royal Bank Scot., Scot & Newcastle.

LONDON TRADED OPTIONS

THE ARRIVAL of water options boosted volume in the London Traded Options Market yesterday, with the 41,933 contracts traded nearly double Monday's 22,733 figure. There were 22,987 calls.

The most popular option was the Water Package Unit which traded 8,930 contracts, nearly a third of them through James Capel. The business was divided between 3,412 calls and 5,518 puts. The busiest package series was the March 1,350 puts which traded 2,215 contracts.

Thames Water also traded well and was the second-most active stock option with 3,817 contracts, of which 3,412 were calls and 5,518 puts. One trader said the volume was disappointing when set against the volume of business in the underlying market, where 54m shares changed hands.

The most popular series in Thames was the January 140 calls, where 941 contracts were traded.

Elsewhere there was strong business in the heavily-weighted FT-SE stocks which corresponded with activity in the underlying market and in the futures market.

BT options were the third busiest stock option with a healthy 2,327 contracts traded, of which 1,691 were calls. Of these, 1,100 were in the February 300 series.

Lonrho was active with 1,778 options traded of which all but eight were calls. December 309 calls accounted for 662 contracts. British Steel rounded out the top five stock options by volume with 1,537 contracts, of which 1,232 were calls. The most popular contract was the April 120 call with 750 traded.

British Gas, with 1,490 contracts, and Pilkington, with 1,230, were also active. Abbey National was boosted by growing call premium selling and put closing as a result of the rise in the underlying price in recent months. It traded a total of 1,147 contracts.

Business also picked up in the FT-SE Index option where 7,467 contracts traded. Of these 3,238 were calls and 4,229 puts with the busiest series being the December 2,400 calls, where 1,421 contracts traded.

		CALLS			PUTS		
Option		Jan	Apr	Jul	Jan	Apr	Jul
Alld Lyons (*490)	420	76	93	100	1½	5	10
	460	40	63	68	5½	13	20
	500	17	37	46	24	30	37
ASDA (*109)	110	7	14	10	7	10	12
	120	4	10	15	13	16	17
	130	2	7	10	22	23	25
Brit. Airways (*211)	180	35	43	44	1	3½	6
	200	16	23	30	3	8	11
	220	5	15	17	15	16	18
Brit Com (*99)	90	17	22	25	6	8	12
	100	12	17	20	10	14	17
SmKl Beecham A (*604)	550	–	83	100	–	10	12
	600	26	48	65	17	21	27
	650	7	25	40	50	52	53
Boots (*269)	260	18	30	36	5	9	13
	280	6½	19	25	17	10	21
	300	3	12	–	32	32	–
B.P. (*330)	280	54	60	64	1	3½	5
	300	35	43	47	1½	6	10
	330	10½	22	26	8	13	19
British Steel (*132)	120	14	19	21½	1¼	2¼	4
	130	–	–	14	–	–	7½
	135	3½	8¼	–	6	7½	–
Bass (*1042)	1000	68	112	135	13	22	32
	1050	34	80	105	34	47	53
	1100	13	52	–	68	73	–
C & Wire (*520)	460	68	92	103	4	10	15
	500	35	59	70	11	21	29
	550	12	34	51	40	45	52
Cons. Gold (*1480)	1450	20	–	–	5	–	–
	1500	4	–	–	45	–	–
Courtaulds (*388)	330	63	75	82	2	3	7
	360	34	51	59	5	10	15
	390	15	32	40	15	21	29
Com. Union (*488)	420	74	81	90	3	6	9
	460	38	47	62	8	17	19
	500	15	35	40	35	32	36
GKN (*425)	390	43	52	60	6	12	18
	420	22	33	50	16	27	30
	460	6	10	–	42	55	–
Grand Met. (*601)	600	25	44	62	19	37	42
	650	8	24	–	53	64	–
I.C.I. (*1125)	1050	94	117	140	9	25	35
	1100	57	84	107	20	47	54
	1150	29	54	82	38	72	68
Jaguar (*845)	800	52	54	54	1	1	1
	850	1	1	1	10	10	10
	900	½	½	½	60	60	60
Kingfisher (*290)	280	20	54	38	6	9	16
	300	9	24	20	17	22	26
Ladbroke (*315)	300	24	37	44	5	10	15
	325	9	–	–	16	–	–
Land Secur (*522)	500	33	53	67	6	13	17
	550	9	28	37	31	37	42
M & S (*200)	180	24	31	34	2	5	4½
	200	8	17	21	6	9	11
STC (*271)	260	20	27	37	6	14	18
	280	8	17	26	15	23	28
Sainsbury (*267)	260	15	26	32	5	7	18
	280	4½	14	21	14	16	18
Shell Trans. (*478)	420	68	73	85	1½	6	12
	460	34	42	60	6	15	20
	500	10	22	35	24	31	32

		CALLS			PUTS		
Option		Jan	Apr	Jul	Jan	Apr	Jul
Storehouse (*113)	110	8	15	10	6	10	12
	120	4	10	12	12	15	10
Trafalgar (*363)	360	–	38	47	–	10	22
	377	14	–	–	23	–	–
Utd. Biscuits (*364)	360	19	30	40	9	15	10
	390	5½	15	25	29	33	35
Unilever (*702)	650	66	86½	105	4	12½	17¼
	700	29	53¼	73½	18	29¼	34¾
	750	8¼	30	49	51¼	58¼	62
Ultramar (*359)	300	67	70	83	1½	5	7
	330	37	49	60	5	15	15
	360	16	30	42	15	25	28
Option		Feb	May	Aug	Feb	May	Aug
Brit Aero (*538)	500	83	90	107	9	20	27
	550	47	62	79	23	36	44
	600	21	40	57	50	60	70
BAA (*387)	330	67	80	85	1½	4	8
	360	42	57	63	5½	10	15
	390	21	35	46	17	22	35
BAT Inds (*827)	800	67	98	123	22	35	40
	850	39	70	93	43	60	60
BTR (*468)	420	63	70	86	3½	9	15
	460	31	43	58	14	22	25½
	500	13	26	–	35	43	–
Brit. Telecom (*290)	260	38	47	52	2	3½	5
	280	20	31	37	5½	8	10
	300	8	10	24	15	16	10
Cadbury Sch (*354)	300	62	68	80	3	6	8
	330	37	40	60	6	15	16
	360	19	30	40	10	27	30
Guinness (*650)	600	72	85	103	7	16	18
	650	37	53	75	25	35	38
GEC (*223)	220	13	21	26	8	10	13
	240	4½	11½	17	21	22	25
Hanson (*223)	220	13½	23	27	7	8½	11
	240	4¼	12½	17½	19	20	21
LASMO (*587)	550	68	82	98	15	22	27
	600	33	53	70	30	42	47
P. & O. (*593)	550	63	76½	90½	6¼	16¾	20
	600	29¼	45	61½	24¾	37¼	41½
Pilkington (*234)	220	35	35	39	4½	8½	12
	240	12	23	26	14	17	21
Prudential (*222)	200	30	34	38	3	7	10
	220	15	18	25	10	14	16
Racal (*241)	240	–	–	36	–	–	20
	250	13	–	–	17	–	–
R.T.Z. (*576)	550	–	63	79	–	20	24
	600	20	35	51	33	42	46
Scot. & New (*339)	330	27	42	50	16	22	27
	360	15	30	35	35	39	45
Tesco (*195)	180	22½	28	33¼	3¼	5½	6¼
	200	9¼	16	22	11¼	13¼	15
	220	3½	8¼	–	27	27¼	–
Option		Jan	Mar	Jun	Jan	Mar	Jun
Abbey Nat. (*170)	160	14	18	21	4	7	8
	180	2	7	18	13	15	16
Option		Feb	May		Feb	May	
Plessey (*268)	260	11	–	–	½	–	–
	280	¼	¼	–	–	–	–
Option		Jan	Mar	May	Jan	Mar	May
Ferranti (*40)	40	6	7½	10	4½	6½	7½
	45	2½	5	7	7½	9	9½

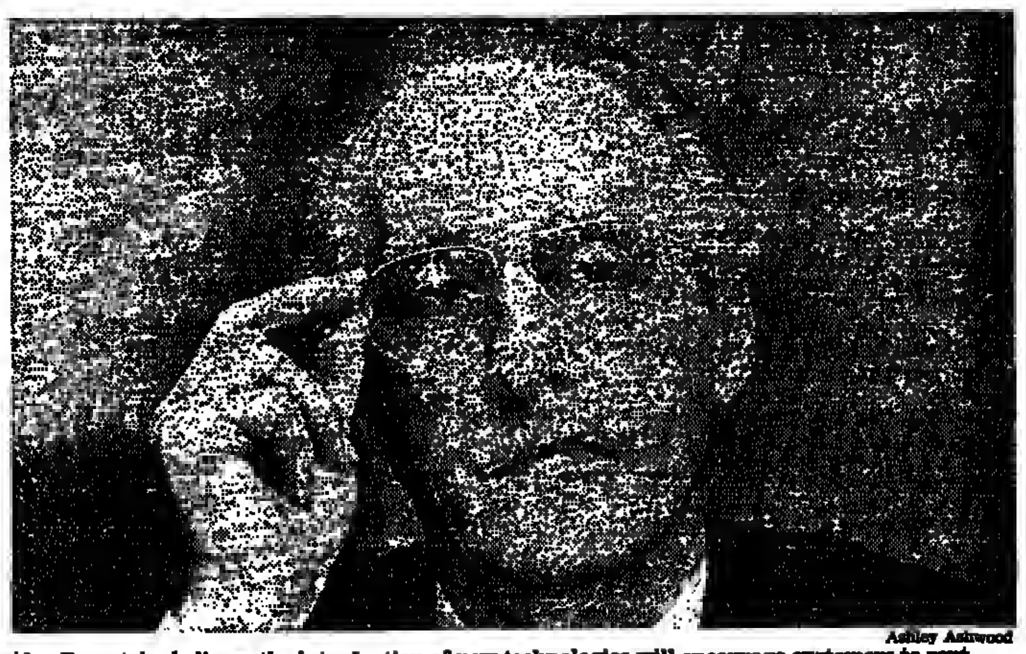
		CALLS			PUTS		
Option		Jan	Mar	May	Jan	Mar	May
Polly Peck (*405)	390	31¼	47½	59	10¾	19	22
	420	16¼	31¼	41¾	26¼	34	35¾
Thames Water (*134)	120	16	20	24	1	2½	3½
	130	8½	13	16	5½	5½	7
	140	3	7	11	9½	11	12
Water Hldg Pkg (*1389)	1350	72	115	170	19	34	50
	1400	47	90	135	47	60	65
Option		Dec	Feb	Apr	Dec	Feb	Apr
Reuters (*1022)	1000	29	73¼	90¼	7½	29¼	41¼
	1050	6¼	47	71¼	35½	54¼	65½
Option		Dec	Mar	Jun	Dec	Mar	Jun
Amstrad (*43)	40	8	10	12½	2½	5	7
	45	2½	7	10	5	6½	9
Barclays (*550)	500	52	72	80	2	14	17
	550	10	30	45	11	29	35
Blue Circle (*235)	220	18	32	35	1½	6	15
	240	–	–	24	–	–	35
British Gas (*229)	220	10	10	28	2	8	10
	240	1	7½	14	15	17	18
Dixons (*136)	130	8½	10	22	5	8	11
	140	4	11	17	8	15	14
Glaxo (*796)	750	50	82	105	3	15	22
	775	27	64	87	7	22	32
	800	15	49	75	17	35	42
Hawker Sidd. (*674)	650	30	72	90	7	30	32
	700	4	43	47	33	45	55
Hillsdown (*274)	260	17	32	38	2	8	12
	280	3	20	27	10	16	20
Lonrho (*301)	300	–	19	30	–	22	26
	309	3	–	–	12	–	–
Midland Bk (*370)	360	14	30	37	4	22	23
	390	1½	15	27	23	38	40
R. Royce (*172)	160	12½	21½	24	1	4½	7½
	180	1½	10½	14	11	14	10
Sears (*105)	100	6	11	13½	1½	4	6½
	110	1½	6½	10	6	8	10½
THF (*300)	280	22	37	41	1	7	14
	300	5½	24	31	5	14	19
Thorn EMI (*777)	750	30	69	90	4	20	30
	800	4½	35	67	32	43	49
TSB (*129)	120	10	15	19	1½	4½	6
	130	3	7½	10	4	8	9
Vaal Reefs (*$112)	100	14	17	22	2	6	10
	110	5	12	16	4	14	14
Wellcome (*750)	700	55	92	125	4	22	30
	750	17	60	95	17	40	52

FT-SE INDEX (*2361)

	2100	2150	2200	2250	2300	2350	2400	2450
CALLS								
Dec	270	220	171	122	70	39	18	5
Jan	292	244	198	157	118	84	56	36
Feb	310	267	223	183	143	110	83	60
Mar	326	284	243	203	166	134	105	83
Jun †	373	–	295	–	223	–	160	–
PUTS								
Dec	2	2½	3½	5	11½	24	53	98
Jan	10	12	17	25	38	54	75	112
Feb	17	22	27	38	50	68	92	123
Mar	21	28	35	45	57	77	100	130
Jun †	34	–	50	–	77	120	–	–

December 12 Total Contracts 41,343
Calls 22,987 Puts 18,356
FT-SE Index Calls 3238 Puts 4229
*Underlying security price. † Long dated expiry months

UK COMPANY NEWS



Ashley Ashwood

Alex Bernstein: believes the introduction of new technologies will encourage customers to rent

Reorganised Granada improves 15% to £164m

By Andrew Bolger

GRANADA GROUP, with interests spanning television, leisure and business services, yesterday reported a 15 per cent increase in pre-tax profits of £164m in the year to September 30.

Turnover rose by 11 per cent to £1.64bn and earnings were 7 per cent ahead at 30.1p. The shares dropped 13p to 302p.

Granada revealed that its withdrawal from electrical goods retailing, which included selling Laskys to Kingfisher, had involved losses of £24.8m and the disposal of the associated credit operations had cost it £16.6m. The losses were shown as extraordinary items which did not affect the pre-tax result or earnings figure. Granada also sold NASA, its French brown goods retail business, and moved out of retailing in Canada and West Germany.

These losses were offset by a profit of £55m arising from Granada's property disposals in the shape of its 68 per cent stake in Barranquilla Investments and other investments, which was also shown as an extraordinary item.

Mr Alex Bernstein, chairman, said the performance of the TV and video rental business in the UK had been encouraging, with a significant improvement in Granada's share of the new agreement market and a drop in the rate at which customers were lost.

He added: "We believe that the introduction of new technologies, sometimes with competing standards, in the fields of satellite, stereo and high-definition television, will encourage customers to rent, rather than buy outright in the first instance.

"We have invested over £100m in rental equipment, on the refurbishing of our stores, and on improved customer service. This is necessary if we are to take full advantage of the market opportunities, but it inevitably restricts earnings growth in the short term."

Granada Television's revenues from both advertising and programme sales were said to be buoyant, although advertising growth had been slow this autumn. Negotiations had been concluded with the broadcasting unions which would ensure that Granada retained its cost advantage over the other major contractors.

The leisure division increased operating profit by 26 per cent and turnover by 15 per cent. Some of this increase came from the rapid expansion in Granada's chain of motorway service stations and lodges. The group had also responded to renewed interest in bowling and bingo by developing and acquiring new outlets.

Mr Bernstein said the creation of Granada Computer Services International from the integration of DPCVE, CFM, Mainstay and other companies had established the leading independent computer maintenance business in Europe, with a market share four times that of its nearest competitor.

But he admitted that the integration had taken longer and been more difficult than originally anticipated. The disruption caused by integration also had an impact on operating profits and involved further one-off reorganisation costs.

A final dividend of 7.9p per share was recommended, making 12.3p for the year, an increase of 10 per cent.

See Lex

Lovell bid aided by Higgs board defector

By Ray Bashford

YJ LOVELL has lifted its holding in Higgs and Hill, the competitor in the house building and construction industry, to 16.7 per cent through acceptances to last month's cash and share offer.

The bulk of the acceptances appear to have come from companies and people associated with Mr John Adams, the former deputy chairman of Higgs who defected from the board and accepted the £137m offer.

These sources, directly and indirectly associated with Mr Adams, could deliver into Lovell's hands up to a further 7.5 per cent of Higgs and Hill's capital, according to Mr Anthony Hichens, Lovell's deputy chairman.

Mr Adams accepted the offer for his 0.7 per cent holding and resigned from the board after being replaced as deputy chairman. This followed his decision to agree to the Lovell bid.

Mr Adams' holding and the stake bought in the market gave Lovell a 3.1 per cent holding at the start of the campaign for control of Higgs meaning acceptances for a further 7.5 per cent had been received by the first closing date at the end of business yesterday.

Most of this 7.5 per cent has come from people and companies which became Higgs shareholders in 1986 when the company acquired Southend Estates for the equivalent of £28.1m in shares.

Mr Adams indicated to the Lovell board at the time that he backed the offer that other shareholders were likely to follow his lead, according to Mr Hichens.

Mr Hichens said last night that he took this to mean that up to 15 per cent of Higgs capital could be influenced by Mr Adams. He said it was "extremely probable" that other shareholders associated with Adams would sell

EAP Securities, one of the biggest shareholders in Southend Estates and therefore a major shareholder in Higgs at the completion of the offer, accepted the Lovell offer for its shares which represent about 3 per cent of the capital.

Power products help Triplex Lloyd to £5.1m

By Richard Tomkins, Midlands Correspondent

TRIPLEX LLOYD, the West Midlands-based industrial and engineering group which significantly expanded when it bought the Christy Hunt engineering group for £34m in January, increased pre-tax profits from £2.83m to £5.14m in the half year to end-September.

Group turnover forged ahead from £50.8m to £80.8m.

Much of the increase reflected Christy Hunt's first six-month contribution, so earnings per share were ahead by a relatively modest 6.5 per cent at 8.2p (7.7p).

However, Triplex reflected its confidence by marking up the interim payment by 43 per cent to 2.5p (1.75p).

One of the best performers in the half year was the enlarged power and defence division, where strong demand for power products among international customers more than offset weakness in the defence sector. Operating profits surged from £648,000 to £2.23m.

Electrical engineering and services was the other strong performer, with benefits of the merger showing through to take profits up from £488,000 to £1m.

The automotive and engineering division experienced disruption from the £10m capital spending programme, and profits merely edged up from £1.15m to £1.28m in spite of good demand.

Building products did well on the commercial side, but sales to the new building and domestic sectors were badly hit by the effect of high interest rates. Profits nevertheless rose from £933,000 to £1.16m.

The newly-formed property division turned in an initial £819,000 as the group continued its policy of turning surplus assets into cash.

It has just won planning permission for the development of its 30 acre Park Lane site next to Junction 9 of the M6.

Triplex said that in spite of high interest rates, trading was still encouraging in most of its industrial markets, and the benefits of capital were expected to continue coming through, alongside rising property profits.

Higher interest rates fail to check Halma advance to £5.7m

By John Ridding

HALMA, the safety and environmental control group, yesterday announced pre-tax profits of £5.68m for the six months to the end of September, an increase of 11.5 per cent on the comparable period.

Mr David Barber, chairman, said that the increase reflected "excellent trading performances by most of the subsidiary companies" despite the impact of higher interest rates.

Group turnover during the period increased from £28.16m to £35.26m, 36 per cent of which came from overseas sales.

Earnings per share rose from 3.55p to 3.78p and the interim dividend improves by 30 per cent from 0.707p.

Despite the overall trading improvement, two of the group's subsidiaries suffered as a result of the slowing UK economy.

A&G, which sells burglar alarms and intruder panels was affected by the slowdown in the housing market and Volumatic, which supplies anti-shoplifting devices to the retail sector also saw reduced profits.

In the environmental control division, Palintest suffered reduced profits following the loss of a major distributor for its swimming pool water analysis tablets.

The group has continued to make acquisitions and has bought four new companies since July.

Of these, Marathon Monitors and Thames Side Scientific were included in the half year figures but made only a small contribution.

Mr Barber said that it was not easy to make predictions in the current economic climate but he anticipated that the full year results would "provide more than adequate assurance of our long-term growth prospects."

Chiltern Radio to join main market with £12.7m tag

By Clare Pearson

CHILTERN RADIO, where Capital Radio, the UK's largest commercial station, last week increased its holding to 22.9 per cent, is coming to the main market via a placing which values it at £12.7m.

Chiltern, which operates in several counties to the north of London, flagged plans to seek a listing in August. At that time it was fighting off a partial offer from Crown Communications, the broadcasting group, which last week sold all its shares to Capital.

The placing price of 210p per share compares with an equivalent of 300p paid by Capital for the 12 per cent holding: a measure of the value placed on strategic positioning by commercial radio stations in the run-up to deregulation.

Some 11.8 per cent of the enlarged share capital of Chiltern, which already has around 300 separate shareholders, is being placed. The entire net proceeds of £1.5m represent new money for the company.

With pre-tax profits for the year to end-September standing at £950,000, up from £487,000, the historic p/e at the placing price is 17.8 – a premium to the sector.

Mr Peter Burton, chairman, said Chiltern had a much better earnings record than some other commercial radio stations, and also had yet to generate additional revenues by splitting frequencies.

Chiltern planned to expand through acquiring extra stations and gaining new licences after flotation, Mr Burton said.

Capital Radio has signed a stand-still agreement preventing it from increasing its holding for 18 months. Under current IBA rules it would not be allowed to launch a takeover bid for Chiltern. Mr Burton said there were no specific plans for co-operation between the two geographically-contiguous companies as yet.

Since 1985, Chiltern's pre-tax profits have risen from £101,000. Turnover has increased from £1.38m to £3.55m.

Sheriff advances 35%

SHERIFF HOLDINGS, the construction plant hire group which made its USM debut last January, posted a 35 per cent increase from £776,000 to £1.05m in pre-tax profits for the year to end September.

In addition the group announced the acquisition of Dalecliff, a plant hire business, together with a placing and an open offer to shareholders.

Dalecliff is being acquired for £1.1m to be satisfied by the issue of 758,620 new ordinary, 658,620 of which have been conditionally placed.

At the same time Sheriff is raising £785,000 in a placing of up to 541,380 new ordinary. The net proceeds will be used to reduce borrowings.

A total of 518,380 of these subscription shares have been conditionally placed. Both the vendor shares and the subscription shares will first be offered to shareholders on the basis of one new ordinary at 145p for every four held.

In the year to March Dalecliff achieved profits of £231,000 on turnover of £802,000.

Sheriff's turnover increased from £5.81m to £9.08m. Earnings improved to 14.1p (12.4p) and the proposed final dividend is 3.75p for a total of 4.5p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Anthony Investments, Bulmer (HP), Charter Consolidated, Danae Investment Trust, ERF, Fuller Smith & Turner, Honda Motor, London Securities, Lovell (GP), M & G Second Dual Trust, Maxwell Communications, Moorgate Investment Trust, NMC, Priest (Benjamin), Smith New Court, Stewart & Wright.

Finals- Beggeridge Brick, Colonnade Development Capital, Thornton (GW).

FUTURE DATES

Interims-	
Broadwell Land	Dec. 19
Brunning	Dec. 14
Faupel Trading	Dec. 19
Hughes Food	Dec. 20
Tops Estates	Dec. 15
Total Systems	Dec. 21
Welsh Water Authority	Jan. 9
Finals-	
Berisford International	Dec. 18
Doctus	Dec. 18
Processing	Dec. 20

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Blick	fin	4.2	Apr 11	3.6	6.6	5.6
BSS Group	int	5.75	Jan 26	5	-	15
Clarke Hooper §	int	1.6	-	1.45	-	3.9
Creighton §	int	1.6	Feb 20	1.6	-	5.6
Devenish (JA)	fin	3.7	Feb 13	2.8	4.65†	3.55
Dowty	int	3.5☆	Mar 31	3.2	-	8
Granada	fin	7.9	Apr 2	7.2	12.3	11.2
Halma	int	0.707	-	0.544*	-	1.417*
Harland Simon	int	1.5	Feb 7	1	-	4
Melville St Inv	int	1	-	0.5	-	3
Polar Elecs §	fin	2.5	-	-	2.5	-
Racal Electronic	int	0.9525	Feb 15	0.7325*	-	5.2825*
Racal Telecom	int	0.7475	Feb 15	-	-	0.7
Richards	fin	2.75†	-	2.6	3.75	3.5
Shaftesbury	fin	1.5†	-	1	1.5	1
Sheriff Hldgs §	fin	3.75	-	-	4.5◆	-
Sims Food §	int	2.64†	Feb 1	2.4	-	8.6
Titon §	fin	1.96	Feb 23	1.75	2.9	2.6
TMD Advertising§	fin	3.75†	Mar 6	3	5.25	3
Triplex Lloyd	int	2.5☆	Feb 19	1.75	-	5.75
Turnbull Scott	int	4.5†	Jan 22	2.15	-	6
Vaux	fin	5.25†	Feb 2	4.37	7.84	6.53

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ☆Carries scrip option.◆ Includes special interim of 0.75p.

NEWS DIGEST

Acquisitions help Clarke Hooper

CLARKE HOOPER, the USM-quoted marketing services group, showed an increase in profits of 91 per cent in the half year ended October 31 1989.

Mr Barry Clarke, chairman, said the group was strong and operating in growth markets, and was starting to derive real benefits from the effective management of synergistic opportunities.

"Growth prospects remain good for the second half of this current year and into 1990-91," he said.

Turnover expanded 61 per cent to £27.4m (£16.97m) while pre-tax profits worked through at £1.65m (£863,000). With earnings at 6.5p (5.7p) the interim dividend is raised to 1.6p (1.45p).

Mr Clarke said there was a significant improvement at Clarke Hooper America, with outstanding contributions from Schmidt-Cannon, acquired in August 1988, and MultiMedia, which joined the group last March. The three UK companies continued to perform well and lifted profits by 26 per cent.

Consultech, tha Montreal-based business development consultancy acquired last March, has been restructured and full provision made for that in a first half loss of £350,000. A formal claim has been made against the vendors.

Mining & Allied Supplies higher

For the nine months ended September 30 1989 Mining & Allied Supplies made a pre-tax profit of £727,000, compared with £710,000 in the preceding year.

The deficit on distributable reserves had been eliminated and the company was in a position to resume dividends out of future profits, said Mr DS Slabbert, the chairman. The last payment was in 1980.

Over 88 per cent of turnover and 80 per cent of trading profit was derived from the Canadian distribution operations. At Westwood Dawes the current level of activity was a record.

The recently acquired Bearing Supply (Canada) should be major contributor to profit from 1990 on.

Start-up costs limit Titon advance

A modest rise in annual taxable profits was yesterday reported by Titon Holdings, the USM-quoted window fittings and accessories manufacturer.

For the 12 months to end-September, the pre-tax outcome was £1.42m, up from £1.37m last time. However, Mr John Anderson, chairman, said that the period had seen the absorption of start-up costs of the group's new factory and paint plant as well as Titon Inc, its US offshoot. "I am pleased that the company has still been able to return an increase in pre-tax profits" he stated.

Regarding acquisitions, Mr Anderson said the high cost of borrowing together with the low rating of the company's shares made any purchase in the short term "unlikely".

Turnover expanded to £8.59m (£7.4m). Earnings per 10p share worked through at 8.68p, up from 8.47p last time, and a recommended final dividend of 1.96p brings the total to 2.9p (2.6p).

Security side buoys Turnbull Scott

Near trebled profits and a more than doubled interim dividend were announced by Turnbull Scott Holdings. That growth, however, would not be repeated in the second half.

For the six months to September 30 1989, turnover surged to £18m (£8.73m) while pre-tax profits reached £2m (£714,000). From earnings of 25.3p (10.5p) the interim dividend is 4.5p (2.15p).

Mr Graham Turnbull, chairman, said the property division included a contribution from the sale of Units 1-8 at Springlakes, the industrial services side showed a reduction, but security had grown substantially.

The second half, however, would show a loss in property after the cost of opening two new business centres, and a reduction in the contribution from shipping, he said. New acquisitions should make a positive contribution.

In spite of the imbalance of the two halves, trading results were well ahead of last year, Mr Turnbull stated.

Trace Computers buys Micrologic

Trace Computers is paying a maximum £769,000 for a 51 per cent interest in Recordata, which trades as Micrologic, and has agreed to buy the remainder between 1991 and 1995 for up to £2.76m.

Micrologic develops and supplies proprietary software packages, principally to the commercial property market, and related hardware systems. In the year ended March 31 1989 it produced a pre-tax profit of £110,000 on turnover of £801,000.

The initial consideration is £408,000, payable as to £49,000 cash, the issue of 15,652 shares and £341,000 in unsecured loan notes. The balance is profit-related. Payment for the 49 per cent balance of the capital will be in three tranches of unsecured loan notes or shares.

UK COMPANY NEWS

Expansion into hotels continues apace with £27m acquisition

Vaux tops £31m as diversification pays off

By Jane Fuller

VAUX GROUP'S strategy of diversifying from its north-east brewing origins into a national hotel chain paid off with a 20.5 per cent rise to £31.57m in pre-tax profits for the 12 months to September 30.

And the investment in hotels ploughs on with the company announcing the £27.3m acquisition from Mount Charlotte Investments of the 178-room Gosforth Park Hotel, Newcastle.

Mr Paul Nicholson, chairman, said this purchase and the development of two new hotels, due to open in Birmingham and Bristol in 1990 and 1991, would help the company to move into the top end of the market.

To fund the acquisitions, which also include nursing homes, tenanted pubs and newsagents, Vaux is raising nearly £37m by issuing 12.1m shares – about 9 per cent of the enlarged equity – at 305p each.

The profit outcome was achieved on turnover up some 13 per cent to £221.25m (£196.5m).

The 34 Swallow hotels increased their profit contribution by 25 per cent to £15.47m (£12.4m) through higher room rates and higher levels of occupancy.

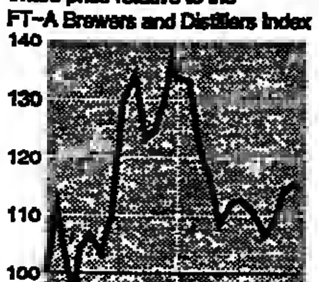
In spite of the fast growth, their turnover, at £66.3m (£54.8m), did not quite catch up with the Vaux and Ward's breweries' steadier £67.1m (£63.5m).

However, profits from brewing grew more slowly to £9.71m (£8.98m), although Mr Nicholson said margins had been improved by the increasing proportion of lager sales. Vaux has agreements to brew two international brands, Labatt's and Tuborg.

The company has some 570 pubs, of which the 120 managed houses have been separated from brewing. Vaux Inns provided £3.65m (£3.06m) profit on sales of £28.85m (£27.75m).

Vaux

Share price relative to the FT–A Brewers and Distillers Index



Mr Nicholson said the trend towards the more tightly controlled managed houses might mitigate the possible effects of the Monopolies and and Mergers Commission report on the brewing industry, which he described as "grossly flawed."

The poorest performance came from the wines and spirits division, including the Blayneys off-licence chain. With sales up by more than £4m to £54.7m, profit was limited to £1.41m (£1.29m) by stock problems. Mr Nicholson said the injection of newsagents and good prospects for "corner shops" would improve margins.

Nursing homes, which last year contributed little, made nearly £882,000 profit. Acquisitions have lifted the total to 22 with about 1,000 beds.

The company, which raised a £60m debenture in May, would see gearing rise from 10 to 20 per cent this year, said Mr Nicholson.

Earnings per share rose to 18.61p (16.04p) and the recommended final dividend of 5.25p makes a total of 7.84p (6.53p).

The share issue is via a vendor placing and an open 8-for-81 offer to existing shareholders.

● COMMENT

The hotel chain, very much the jewel in Vaux's crown, is the main reason for an otherwise expensive looking share price of 322p and a prospective p/e pushing 16. This is buoyed by speculation about the intentions of two stake-holders, Queens Moat Houses and Sir Ron Brierley, the New Zealand businessman. In spite of the jewel's past-year lustre, it could be dimmed by a business downturn. Meanwhile, prospects for brewing look flat after a disappointing autumn for beer and an apparent shortage of brand muscle in the highly competitive northern market for draught ale. Further diversification into nursing homes and retailing should help and profits are forecast to grow to about £37m.

Devenish advances 22% to £14m

By Philip Rawstorne

JA DEVENISH, the West Country-based brewer, is planning to buy 400-600 pubs over the next year, more than doubling the size of its estate, Mr Michael Cannon, chairman, announced yesterday.

The company, which reported full year pre-tax profits ahead 22 per cent to £14.02m (£11.5m) for the year to end-September, intended to take full advantage of opportunities for expansion as major brewers sold pubs to meet the requirements of post-Monopolies and Mergers Commission legislation, Mr Cannon said.

With current gearing of 13 per cent, strong brands and asset backing, and managed-house expertise, Devenish was well placed to benefit from expected changes in the industry, he claimed.

It would be looking in particular for acquisitions in the Midlands, where it has extended its wholesaling operations.

The pre-tax ontcome included £4.5m from property disposals. A profit of £2.1m on the sale of allotment land at Weymouth was treated as an extraordinary item.

Turnover expanded 20 per cent to £84.44m (£70.31m), yielding a trading profit of £13.4m (£11.13m).

Of that, the 180 Inn Leisure managed houses contributed £10.5m, nearly half coming from Devon, Dorset and Cornwall.

Sales of the company'e Newquay Steam beer brand, recently launched nationally and now expanded to include a Diät Pils and a Diät Bitter, rose encouragingly, Mr Cannon said.

An extended range of the Churchill export brands won significant new orders from the US and Italy.

A recommended final dividend of 3.7p lifts the total by 31 per cent to 4.65p, payable from fully diluted earnings per share up from 20.21p to 22.98p.

● COMMENT

Full Steam Ahead is now the motto for the retail-minded management team that moved into Devenish with the Inn Leisure merger in 1986 and has already lifted pre-tax profits from £1.8m. With a computer in every pub, its managed estate is probably now the best of the regional brewers. The company needs more to work on and the post-MMC shake-np offere a one-off chance to get it. Acquiring pubs on the scale it envisages may not do much for its share price in the short term but should improve its long term appeal.

Hoskins in the black with £48,000 midway

By Jane Fuller

Hoskins Brewery, the Leicester-based concern which joined the Third Market in February, prodnced pre-tax profits of £48,000 for the six months to September 30, compared with a loss of £3,000.

The company poured on an extra £489,000 in sales to make £1.11m. This followed buoyant beer sales in the summer and the acquisition in June of Tatlocks, which includes three licensed tea and coffee houses in the south-east. Hoskins also bonght one pub and refurbished two others. It has a total of 11.

Earnings were 0.76p.

COMPANY NEWS IN BRIEF

ACSIS GROUP has acquired Advertee and Trafalgar Publicity Service for cash considerations of £135,000 and £60,000 respectively.

BLACK (A&C) proposes to acquire Helm for a total maximum consideration of about £482,000. Helm publishes some 200 titles and specialises in natural history, gardening and travel books. Black currently sells and distributes all of Helm's titles.

CAPARO owns or has acceptances for its offer for Armstrong Equipment in respect of 51.97m (97.4 per cent). It intends to acquire compulsorily the remaining shares.

EDINBURGH OIL & GAS has agreed to acquire the entire UK offshore interests of Pict Petroleum, excluding Northern Ireland, for a consideration of £1.5m which will be satisfied by the issue of 2.65m new Edinburgh Oil ordinary, representing 16.5 per cent of the enlarged capital.

GREAT PORTLAND Estates has exchanged contracts to buy 75-83 New Cavendish St, London, for an initial £14.5m. A further £8m will be spent on refurbishment, depending on the granting of planning permission. The initial consideration will be in the form of 9.5 per cent convertible unsecured loan stock 2002.

HARLAND SIMON Group has acquired Banteil Holdings for a total cash consideration of £275,000. For the year to September 30 1989, Banteil's unaudited accounts showed net assets of some £325,000, sales of about £2.5m and a pre-tax loss of £536,000. Banteil is forecasting a return to profitability in the current year.

JOURDAN (Thomas) has sold the baby mattress business of Rochingham Babycrafts to Harrison and Jones Group for £257,000 cash.

MAI has, through its MIL Research Group subsidiary, acquired Goldring, a Chicago-based market research company. The consideration is not material to MAI's balance sheet.

NORCROS has merged its joinery interests with Sarek Holdings UK in a new company called Crosby-Sarek. Norcros will acquire Sarek Holdings for £9m cash based on net assets of £579,000, which is after deducting borrowings of £13.8m. Sarek's turnover for 1988 was £27.7m.

POWERSCREEN International has agreed to acquire Universal Conveyor for £1.18m cash. Net asset value of Universal is £1.28m. Powerscreen has retained the option to purchase the freehold property of the business for £1.65m, and the option is to be exercised within one year.

RENAISSANCE HOLDINGS (specialist investor in company turnround and recovery situations): net assets at September 30 rose to 115.9p undiluted (114.4p at June 30 and 104.3p at December 31 1988) and 111.2p fully diluted.

TRANS WORLD Communications has acquired a further 17 per cent of Broadcast Marketing Services for £440,000 cash taking its holding to 26.8 per cent. It has also sold the business and certain of the assets of Piccadilly Squire to County Sound Radio for £513,000 cash.

UNILEVER has acquired Compania Productora Nacional de Aceitas, a maker of margarines, edible fats and oils in Chile, for an undisclosed sum.

UNIT GROUP has acquired Green Pennant Engineering, maker of custom engineering products, for a maximum £765,000 cash.

WADDINGTON (JOHN) has sold Waddington Sanders, its Canadian offshoot, to Canada Games Company for C$180,000 (£96,000).

UK COMPANY NEWS

Blick records 14% gain to £5.38m

THE MARKET lost no time in re-rating shares of Blick, a supplier of clocking-in equipment and radio pagers, after it reported a 14 per cent increase in pre-tax profit, from £4.72m to £5.38m.

The share price gained 25p to 201p after the figures were announced for the year to September 30.

Turnover rose 13 per cent to £21.76m (£19.28m), with equipment sales providing £12.47m (£11.24m) and continuing custom – notably the renting out of clocking on equipment – £9.3m (£8m).

Mr Alan Elliot, chairman, said the rental business contributed the most profit growth. The type of systems supplied ranged from "Noah's Ark clockwork ones to computerised systems." The equipment was mostly made in Japan.

The main growth area was in electronic recording equipment, from which rental income had doubled since 1987. The traditional electro-mechanical devices involved clerical workers in adding up hours, whereas the electronic systems could do the sums and link into personal computers for automatic wage calculations, he said.

The company's main manufacturing activity is radio pagers.

Profits were held back by a deferred contract and a delay in developing a link with the Psion Organiser.

Programs at Work, which produces software for computerised time systems, had failed to contribute. This had been tackled through a management shake-up and by bringing in a team of software consultants, he said.

The company's cash balances yielded £200,000 in interest. Mr Elliot said it was looking to buy more rental contracts, as it had done from National Telecom.

That acquisition and the tendency of new customers to choose rental because of high interest rates had increased the gross contracted rental from £30m to more than £40m during the year.

Earnings per share were 18.62p (16.63p). The final dividend is 4.2p, making a total of 6.6p (5.6p).

Kenmare raises £980,000 for development

By Kenneth Gooding, Mining Correspondent

Kenmare Resources, the USM-quoted Dublin-based natural resources company, has raised £980,000 net by placing 2.29m ordinary shares with Jardine Fleming, the Hong Kong merchant banking group.

The shares represent 5 per cent of its increased capital and were placed at 41p, the price on November 23 when the deal was first mooted.

Mr Michael Carvill, managing director, said the cash would be used to fund gold exploration projects in the Philippines and a feasibility study on its graphite project at Ancuabe in Mozambique.

Kenmare has recently concluded joint venture negotiations about this project, giving it 40 per cent of the equity, plus an operator's fee.

BSS rises 18% but growth rate could slow

BSS Group, a supplier of industrial heating, process control and pipeline equipment, reported strong trading throughout the six months to September 30 resulting in taxable profits rising 18 per cent from £5.62m to £6.63m.

Mr Ian Phillipps, chairman, said that the high level of activity in the industrial and commercial sectors had continued in the present half but he would be surprised if 1990 did not bring any reduction in the rate of growth.

Turnover improved by 32 per cent to £81.39m (£61.78m) for trading profit of £7.02m (£5.78m). The interest charge was more than doubled at £386,000 (£152,000).

After tax of £2.4m (£2.02m) earnings per share came out at 22.6p (19.3p). The interim dividend is raised to 5.75p (5p): last year's total was 15.

US group acquires 50% stake in Irish Press

By Kieran Cooke in Dublin.

INGERSOLL Publications, the US-based newspaper group, is to acquire a 50 per cent stake in three newspapers titles owned by the Dublin-based Irish Press Group.

Shareholders have agreed to what amounts to a rescue package for the group in which Ingersoll will provide I£6m (£5.6m) for the development and marketing of the Irish Press, the Sunday Press and the Evening Press.

Ingersoll Publications has more than 40 small and medium sized daily newspapers plus 150 weeklies in the US. In 1987 it moved into the UK, buying the four titles in the Birmingham Post and Mail Group for £60m. It has an annual turnover of $750m.

The Irish Press Group was founded in 1931 by Mr Eamon de Valera, one of the leading figures of the country's struggle for independence. Under the new arrangement the de Valera family will still control a large portion of the group's shares.

Traditionally Irish Press newspapers have reflected the views of Fianna Fail, the dominant party in Irish politics for much of the past 50 years.

The group has been accumulating heavy losses in recent years as sales diminished. Sales of the daily Irish Press were 93,000 in 1983 but have now fallen to 64,000 per day.

Mr Ralph Ingersoll, head of Ingersoll, has big plans for his new venture in Ireland. "I intend us to have the number one selling morning newspaper, number one evening paper and number one Sunday paper, all within five years" he recently stated.

NEWS DIGEST

Sims Food shows 50% advance

AS A result of encouraging growth in all sectors, Sims Food Group increased its pre-tax profit by 50 per cent on turnover 28 per cent ahead in the half year ended September 30 1989.

Mr Douglas Appleby, chairman of this USM-quoted processor of fresh meat and meat products for the retail and catering trades, said the period was one of quiet consolidation, but over £2.5m was invested in automation and increasing factory space and production.

Profit rose from £2.2m to £3.3m and turnover from £60.57m to £77.56m. With earnings at 9.48p (7.89p) the interim dividend is raised to 2.64p on capital after the rights issue (2.2p).

He said the second half looked encouraging and there were several developments in prospect.

Mr Appleby is retiring, and Mr John Stone takes over as chairman.

Polar Electric beats forecast at £1.23m

A 31 per cent increase in pre-tax profits from £939,000 to £1.23m was announced by Polar Electronics, distributor of a broad range of electronic components, for the year to September 30. This compares with a £1.2m forecast made at the time of its flotation on the USM in July.

The proposed dividend for the year is 2.5p, payable from earnings per share of 12.3p (9.9p).

Turnover advanced to £14.83m (£11.67m) and operating profits amounted to £1.31m (£1.03m) before interest payable of £78,000 (£87,000).

Polar's shares rose 15p to 95p.

Carpet yarn behind Richards advance

Richards, the Aberdeen-based carpet and carpet yarn manufacturer, yesterday reported pre-tax profits of £2.77m for the year to end-September.

The result – an increase of 13 per cent on the previous year's £2.45m – was achieved in the face of the current squeeze on consumer durable expenditure and the downturn in the UK housing market.

Turnover declined slightly to £74.24m (£78.41m). Earnings per 10p share advanced 7 per cent from 8.4p to 8.96p and the total dividend is lifted a similar amount to 3.75p via a proposed final of 2.75p.

An extraordinary charge of £323,000 related to tax costs associated with the reorganisation and closure of the head office function of Spence Bryson, the textile group purchased by Richards last January.

Oglesby & Butler hit by US marketing

Oglesby & Butler, engaged in the manufacture and distribution of electrical, electronic and gas power tools and accessories and which is quoted on the Third Market, saw pre-tax profits tumble from I£214,000 to I£107,000 (£100,234) in the six months to September 30 despite a 28 per cent increase to I£2.5m in turnover.

The board said that the increase in sales was less than budgeted due to a slower than anticipated increase in sales of branded goods.

Considerable expenditure had been incurred in the US in support of the marketing campaign and the development of an infrastructure to establish group branded products.

After tax of I£10,000 (I£23,000) earnings per share were virtually halved at 0.84p, compared with 1.64p.

Shaftesbury lower but net assets rise

A 14 per cent contraction in pre-tax profits was unveiled by Shaftesbury, the property development group.

In the year to September 30, taxable profits amounted to £5.03m (£5.87m). Last year's results, however, were struck after exceptional surpluses from property disposals which were not repeated this time.

Net assets at the group's year-end amounted to £69.18m (£32.02m), equivalent to 284p (218p) per share. The shares were unchanged at 173p yesterday.

Earnings per £1 share, on a sharply increased capital, were 14.9p (25.9p) and the single dividend for the year is raised from 1p to 1.5p.

Melville Street net assets higher

Melville Street Investments, an investment trust, increased its net asset value to 145p per share as at October 31 compared with 125p a year earlier.

Revenue before tax for the period more than doubled from £240,211 to £511,895; tax charged was £127,655 against £60,955 leaving earnings up from 0.97p to 2.06p.

The interim dividend is doubled to 1p and a final of not less than last year's 2.5p is forecast.

Acquisitions help TMD rise 81%

Helped by acquisitions TMD Advertising Holdings reported annual pre-tax profits 81 per cent up at £2.2m, against £1.22m. And Mr David Reich, chairman, said the present year for the USM-quoted media buyer had started well.

The results included first full year results from TMD Manchester, acquired in March 1988, with contributions from four further purchases during the year. In the period Carat International took a 29.9 per cent stake in TMD.

Turnover for the year to end-August was £122.24m (£67.07m) a rise of 82 per cent. After tax of £860,000 (£456,000) earnings per share came out at 18.3p (13.7p) or 16.3p (13.5p) fully diluted.

A recommended final dividend of 3.75p makes a total for the year of 5.25p, against last year's single final payment of 3p.

Margins improve at Venture Plant

A sharp increase in margins was reflected in the results of Venture Plant, the USM quoted plant hire business which was the subject of a management buy-out in October 1987.

Pre-tax profits rose 64 per cent, from £958,000 to £1.58m in the year to September 30, against turnover ahead 39 per cent from £6.49m to £9.03m.

After tax of £1.04m (£623,000) earnings emerged unchanged at 8.3p. The total dividend is 3.25p with a final of 2p.

COMPANY NOTICES

THE SUNGEI BESI MINES MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the members of The Sungei Besi Mines Malaysia Berhad will be held on Thursday, 28 December 1989 at 11.00 a.m. at The Merlin Kuala Lumpur, Ground Floor, No. 2, Jalan Sultan Ismail, 50250 Kuala Lumpur for the purpose of considering and , if thought fit, passing the following Ordinary Resolutions:

Resolution 1

"THAT, subject to the Company being able to fulfil the condition(s) imposed by the Ministry of Trade and Industry which, in the opinion of the independent directors of the Company, will not have any material adverse effects on the shareholders of the Company AND permission being granted by The Kuala Lumpur Stock Exchange for the listing of and quotation for the 54,407,000 new shares arising from the conversion of the $54,407,000 nominal value 5% Irredeemable Convertible Unsecured Loan Stocks 1989/94 (hereinafter called "CULS") to be issued hereunder, the Company do hereby adopt, approve and ratify the Sale and Purchase Agreement (hereinafter called "Agreement") dated 6 August 1989 between Bahagia Mewah Sdn Bhd (hereinafter called "BMSB") and the Company for the acquisition of 77,000,000 ordinary shares of $1,00 each representing 71.96% equity interest in Gula Padang Terap Berhad for a consideration of $54,407,000 to be satisfied by an issue at par by the Company of $54,407,000 nominal value CULS which are convertible on any day during its tenure from its issuance to 31 December 1994 at the conversion rate of one $1.00 nominal vale CULS for one new share of $1.00 each in the Company at par and credited as fully paid AND THAT the Directors of the Company be and are hereby authorised to issue 54,407,000 new shares of the Company in satisfaction of full conversion of the CULS AND to do all such acts as they may consider necessary or expedient to give effect to the said Agreement in order to implement, finalise and give full effect to the said transaction."

Resolution 2

"THAT, subject to the passing of Resolution 1 above, the authorised capital of the Company be and is hereby increased from $3,500,000 dividend into 3,500,000 shares of $1.00 each to $60,000,000 dividend into 60,000,000 shares of $1.00 each by creating an additional 56,500,000 shares of $1.00 each."

By order of the Board
Ng See Yen
Secretary

Kuala Lumpur
13 December 1989

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. The Form of Proxy must be signed by the appointer or his attorney in writing or in the case of a corporation, executed under its common seal or attorney duly authorised in that behalf.
3. If the Form of Proxy is returned without any indication as to how the proxy shall vote, the proxy will vote or abstain as he thinks fit.
4. A Form of Proxy to be valid must reach the Registrar's office at 32nd Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia or the United Kingdom Registrar's office at Barclays Registrars Limited, 6 Greencoat Place, London SW1P 1PL, England not less that 48 hours before the meeting.

National Westminster Bank PLC

Notice to Preference Shareholders

Notice is hereby given that a dividend of 2.45p per share for the half-year ending 31 December 1989 will be paid on 26 February 1990 to holders of the Cumulative Preference Shares registered in the books of the Company at the close of business on 2 February 1990.

By order of the Board
G J POVEY, Secretary
41 Lothbury, London EC2P 2BP
12 December 1989

NOTICE TO HOLDERS *OF BEARER SHARES* OF GLOBAL NATURAL RESOURCES PLC

On December 6, 1989, Global Natural Resources Inc. distributed a third quarter report to shareholders located in the U.S. and Canada. Copies of this report may be obtained from:

Hambros Bank, Ltd.
Attn: Stock Center 41 Tower Hill
London, England EC3N 4HA

LEGAL NOTICES

NORMAN HENSHER LIMITED

Registered Number: 544094.
Nature of Business: Furniture Manufacturers.
Trade classification: 08.
Date of appointment of administrative receiver(s): 28 November 1989.
Name of person appointing the administrative receiver(s): National Westminster Plc.
Names of Appointees: N J Vooght and C J Hughes
Joint Administrative Receivers
(office holder nos 008839 and 2041) of Cork Gully
Orchard House
10 Albion Place
Maidstone
Kent ME14 5DZ

CLUBS

UK COMPANY NEWS

Full year forecasts cut after warning of continuing disruption

Dowty held to £37m by strikes

By John Ridding

INDUSTRIAL DISPUTES in the aerospace sector and reduced property profits limited Dowty Group, the engineering and electronics company, to pre-tax profits of £37m in tha six months to the end of September, an increase of 13.5 per cent.

Dowty said it was "very pleased with the results given the circumstances" but warned that the second half would continue to suffer disruption as a result of strikes at British Aerospace and Rolls Royce and at its own Canadian operation.

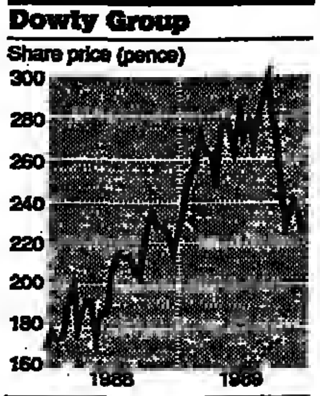
Analysts cut full year forecasts from about £92m to £87m and shares fell 13p to close at 225p.

The first half result was achieved on sales up 26 per cent at £387.5m. Earnings per share, however, remained static at 9.2p, due to the larger number of shares in issue. The interim dividend is raised to 3.5p (3.2p).

Mr Tony Thatcher, chief executive, said that comparisons of the results with the same period last year were distorted by the disposal of the group's hydraulic engineering and mining businesses. These businesses contributed about £2m to profits last time.

But he added; "30 per cent of our businesses have been divested and replaced, profits have continued to grow and there has been no fall in earnings per share. In nine months that is quite an achievement."

Dowty Group



The aerospace divisiou, which now accounts for 40 per cent of profits, raised its contribution by 6.5 per cent to £18.1m despite industrial action at Rotol and Boulton Paul and a decline in military sales.

The electronic systems division increased profits by 18 per cent to £6m and the Polymer engineering division raised profits by 22 per cent to £6.1m.

The information technology division, boosted by a first time contribution from Case, the computer networking group, raised its contribution by over 50 per cent to £9.2m.

However, lower margins were experienced in this division compared with last year due to increased engineering investment in new products and also because of the effect of Case where margins have historically been smaller than in the core datacomms business.

Dowty said that, since September, further steps hava been taken in the Case business to improve profitability.

According to Mr Thatcher, committed and schaduled orders totalled £736m at the end of September. He indicated that a substantial new Airbus contract would be announced within the next few weeks.

● COMMENT

Having successfully focused a large part of its business on the aerospace sector – arguably the most buoyant area in UK mechanical engineering – Dowty is now paying the price. Stoppages at two of its subsidiaries knocked between £2m and £3m off first half profits, and the current six months are likely to be worse as workers at Rolls and BAe strike for more pay and less hours. The outcome of these disputes, and Dowty's own wage rounds, introduces a degree of uncertainty over the company's prospects. Nonetheless, the underlying picture remains promising. The group is based in four high growth areas and has a strong order book across its operations. The defence areas in which it specialises, and submarine detection in particular, seem secure. After yesterday's revision of full year profit forecasts the shares are on a prospective multiple of just over 10. This seems low enough given its defensiva strengths and is likely to pick up as strikes are resolved.

Polly Peck issue

Polly Peck International has announced a proposal for an issue of convertible redeemable stock by a wholly owned subsidiary which will be convertible into new ordinary shares of PPI.

The terms are expected to be announced within 10 days. The issue is being made in connection with the proposed acquisitiou of 51 per cent of Sansui Electric of Japan.

Acquisition doubles French insurer's share of UK market

By George Graham in Paris

ASSURANCES GENERALES de France (AGF), the second largest French state-owned insurance group, is to buy the UK insurance portfolio of National Employers' Mutual (NEM), doubling its presence in the British market.

AGF refused to disclose how much it would pay for the portfolio, which totals £131m of premiums this year, divided more or less evenly between workplace accident policies, motor insurance and domestic non-life risks.

The French company said, however, that it will have invested over FFr1.5bn in the UK in the past two years, with the takeover of City of Westminster Assurance from the Sentry group, the purchase of buildings and equipment and now the acquisition of the NEM portfolio.

The two other French state-owned insurance companies are also looking closely at the UK market, with Groupe des Assurances Nationales (GAN) in negotiations for the acquisition of General Portfolio and Union des Assurances de Paris (UAP), the owner of a stake of over 20 per cent in Sun Life.

AGF, whose existing premium income in the UK is this year estimated at £134m, will now have a market share of about 2.6 per cent in UK motor insurance and 1.7 per cent in general non-life insurance.

Bula buoyed by Gaelic disposal

Bula Resources (Holdings), a USM-quoted oil and gas explorer, saw pre-tax profits for the six months to end-June increase from I£61,000 to I£366,000 (£344,000).

The result included an exceptional I£251,000 profit on the sale of shares in Gaelic Resources.

Turnover was I£1.06m (£546,000). The company said that it looked forward to an increase in the second half with the resumption of production in the North Sea Buchan Field.

Earnings were 0.071p.

French expansion for Crown Communications'

By John Ridding

CROWN COMMUNICATIONS, the broadcasting group, is expanding its presence in French commercial radio through the acquisition of Septentrion, an FM broadcasting group.

The acquisition is by RFM, a French radio group in which Crown is the joint largest shareholder.

RFM did not disclose the consideration but is believed to be paying about £300,000 to buy Septentrion, which has been in receivership since August.

Its seven stations takes to 45 the number of FM stations which are under RFM's control and makes RFM the second largest commercial radio station in Northern France.

Crown estimates that within 18 months its interests in French FM radio will produce as much profits as UK radio.

For the year ending September 30 1988, Crown reported pre-tax profits of £3.12m.

Crown's move marks the latest step in RFM's expansion and the consolidation of the French FM broadcasting sector.

After the advent of deregulation in 1981 over 1500 FM stations sprang up. But many have since run into financial difficulties and have been absorbed by the four or five larger groups.

The larger companies, such as NRJ, Europe 1 and RTL overlap geographically, but there is increasing emphasis on targeting different age groups.

RFM is the fourth largest French FM broadcaster. Its acquisition of Septentrion is the first time that the CSA, the French broadcasting authority, has authorised the transfer of a regional network to a national network.

Crown will spend more than £10m over the next year in expanding RFM's net work.

It is in charge of the day to day running of the company. Mr Andrew, Manderstam, the chairman and chief executive, is a former executive of Crown.

COMMODITIES AND AGRICULTURE

Alumina price forecast to rise 45%

By Kenneth Gooding, Mining Correspondent

CONTRACT PRICES for alumina, the material from which aluminium is produced, are likely to rise by 45 per cent from US$275 a tonne this year to $400 for 1990.

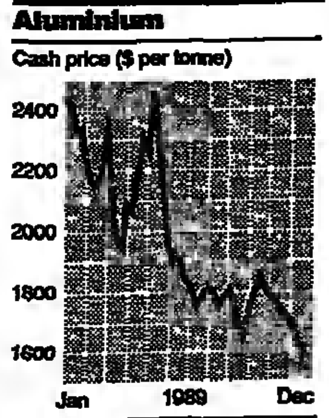
High aluminium production levels over the past two years have left alumina, which is refined from bauxite ore, in short supply. Shortages are likely to last for at least the first and second quarters of 1990, according to the mining team at James Capel, the financial services group.

Capel points out that it takes two tonnes of alumina to produce one tonne of aluminium and that potentially there is another 2m tonnes of new aluminium capacity due to come on stream in 1992-94.

"Assuming that at least some of this comes on-stream, it is expected that firm alumina prices will be present for much of the early and mid-1990s," Capel suggests in its latest Mining Review.

The tight market for alumina has driven the spot price up as high as $700 a tonne at times during 1989. "Industry sources have indicated a minimum asking price (for 1990) from Alcoa Australia is $400 a tonne. The company entered negotiations asking $450. The latter price will apparently be the spot price for next year.

"Sources have confirmed that one-year contracts will probably be settled in the $400-$430 range while two-year contracts are available at $350 a tonne," Capel says.



At $400 a tonne the cost of alumina converted to primary aluminium ingot equivalent is 36 cents a lb. Power consumption for smelting at 16,000 kilowatt hours per tonne of ingot adds a further 24 to 27 cents, giving a total before labour, carbon, materials and so on of 60 to 65 cents a lb.

This would leave precious little margin at today's aluminium price of about 75 cents a lb for those producers who are net purchasers of alumina.

Capel believes that some aluminium smelters will be forced to close and "should this happen, watch out for a rapidly firming aluminium ingot price."

The only new alumina production in recent times has been the restart of the Alpart refinery in Jamaica (1.2m tonnes a year). Alcoa Australia is expanding its annual capacity from 5.5m to 6.1m tonnes by mid-1992. The only new capacity to come on stream before then is the St Croix refinery in the Virgin Islands, scheduled for mid-1990.

Alcoa Australia and its parent Alcoa of the US as well as Alcan and Comalco are likely to benefit from these market conditions, according to Capel, because they are either balanced in their alumina requirements or have a surplus. Reynolds Metals would also benefit to a lesser degree but Amax would suffer even though some of its alumina supply is on a "cost plus" basis.

ALUMINIUM prices on the London Metal Exchange yesterday regained some of the ground they lost on Monday after a sharp rise in LME stocks, by 18,425 tonnes to 53,350 tonnes, was reported. *The cash price fell by 2.4 per cent, from $1,655 a tonne to $1,595 on Monday – the lowest level for 27 months. Yesterday the price rebounded by $22.5 a tonne to $1,472. Traders suggested heavy selling by an investment fund account pushed prices lower on Monday and thwarted an early rally yesterday.*

● *Aluminium production costs rose by 32 per cent between 1986 and mid-1989 to a weighted average of 60.6 cents a lb, according to the Anthony Bird Associated consultancy group.*

The increase, which takes no account of interest, depreciation or return on capital, gathered pace and was 15 per cent in the last 12 months. It reversed the trend of 1982-86 when production costs were falling.

"The explosion in alumina prices is the main reason," notes Mr Tony Bird, the report's author. "This is a most unpleasant development at a time when metal prices have turned weaker."

The report also suggests that costs have been inflated by the recommissioning of old high-cost aluminium smelters in an attempt to meet the shortages of 1988.

US smelters still have higher-than-average costs at 67 cents a lb, but their disadvantage is much less than it used to be, says Bird. Venezuela still has by far the lowest costs – 45 cents a lb – "but many of the major aluminium companies are very reluctant to invest there because they think the political and financial risks are very high."

Among individual companies, Bird suggests that Comalco has the lowest production costs at 53 cents a lb, whereas Alusuisse's costs are 70 cents.

Aluminium Production Costs 1989 – £4,500 for three volumes. From Anthony Bird Associates, 193 Richmond Road, Kingston upon Thames, Surrey, KT2 5DD, England.

Brussels plan to cut farm subsidies

By Tim Dickson in Brussels

A PLAN which would involve reducing farm subsidies over five years, modifying the European Community's system of variable import levies, and "rebalancing" its overall agricultural protection, was presented to EC Farm Ministers last night.

The proposals – contained in a paper written by the European Commission – represent Brussels' long-awaited position paper on agriculture for the final stages of the international trade negotiations known as the Uruguay Round. Observers said many of the ideas were familiar, though for some the offer on variable import levies was a surprising concession.

The paper – to be presented for final endorsement to EC Foreign Ministers in Brussels next week – was not formally made available last night, apparently on the instructions of Mr Raymond MacSharry, the EC's Agriculture Commissioner, and Mr Henri Nallet, the French Agriculture Minister and current chairman of the EC Farm Council.

It is understood, however, that it reaffirms the Community's recognition of the special problems of the agricultural sector, categorically rejects the US's call for total abolition of farm subsidies over the next ten years in favour of a progressive reduction, and draws attention to the reforms of the Common Agricultural Policy introduced since 1988.

The Commission insists on a "global" approach to the negotiations - not product by product, in other words - and calls for a five-year programme of global subsidy cuts starting from the beginning of 1991. No figure is mentioned in this context, but the common measure to be used in this exercise would be the so-called Support Measurement Unit, an adapted version of a yardstick developed by the OECD, which tends to give more credit to the EC's restrictive market policy of recent years.

The most controversial part of the Commission's paper is its acceptance of "partial tariffication" of the variable import levies, which are currently used to keep out cheaper products from world markets. This would mean turning at least part of these variable levies into fixed tariffs, something which the Americans have been urging as a prelude to their abandonment.

EC officials insisted, however, that there was no intention of ending the EC's dual pricing system. In return, the Commission says that the EC would want to increase protection in other areas, notably in oil seeds.

British meat industry agrees hygiene and welfare guidelines

By Bridget Bloom, Agriculture Correspondent

BRITAIN'S £7bn meat industry has agreed guidelines to tighten up the standards of hygiene and animal welfare, including provisions which *could mean major changes in* the way most of the country's 850 abattoirs are run.

The guidelines, which involve the application of European Community standards so far met by only a minority of Britain's abattoirs, are published today under the auspices of the Meat and Livestock Commission, a quasi-independent regulatory body for the industry as a whole.

They range from conditions governing the breeding and rearing of pigs, sheep and beef *cattle to their transport,* marketing and slaughter and the subsequent processing and retailing of meat.

Mr Geoffrey John, MLC chairman, said that the guidelines had been under discussion for the past eight months among 36 representative meat industry bodies including the National Farmers Union and auctioneers, meat wholesalers, manufacturers and processors' associations.

He said they were voluntary and could take two or three years to implement. But the agreement, which had been difficult to achieve in a fragmented industry, would show the industry's good faith.

Mr John acknowledged in an interview this spur to action had come from last winter's food safety scares, beginning with the *salmonella-in-eggs* affair. While there have been no specific food scares relating to red meat, the industry clearly feels under pressure, both from the long-standing campaign for healthier food, which has indicted meat as a source of heart disease, and from more recent environmental and animal welfare lobbies which have highlighted unacceptable practices in the rearing and slaughter of animals.

It was important for the industry to put its house in order *"so that every reasonable* person can be satisfied with what we are doing," Mr John said.

While the guidelines broadly follow welfare provisions agreed by the government-backed Farm Animal Welfare Council, their most radical effect could be on Britain's abattoirs. Only 73 out of the total of 852 now fully meet the standards laid down by the EC. The EC legislation is such that many would have to be reconstructed on new sites, since they would, for example, have to provide complete separation, including exits and entrances to buildings, for live cattle and for carcasses destined for consumption.

While MLC officials point out that nearly 40 per cent of the meat consumed in Britain is slaughtered in the 73 EC-registered abattoirs, and they maintain that standards in the majority of the rest are high, they acknowledge that the guidelines will mean extra capital and operating costs for the whole industry.

The meat industry (poultry is not included in the definition) has traditionally been highly fragmented which has mitigated against industry-wide standards. The retail value of meat and meat products was estimated at £7.4bn last year or 20 per cent of domestic food expenditure. However it is estimated, for example, that about 150,000 farmers rear some beef cattle, 89,000 are involved with sheep and 21,000 with pigs while 15,000 butchers account for just under half of the country's retail meat business, most of the remainder being with supermarkets and caterers.

The 20-page-long guidelines detail "good practices" to be followed for sheep, beef and pig production, for transporting, auctioning and slaughtering the animals through to cutting manufacturing and retailing meat.

Later finish for London oil futures

By David Blackwell

LONDON'S International Petroleum Exchange is to extend its trading hours until 8pm in the New Year in the light of demands from market users, particularly for those dealing in Brent crude oil.

It is also hoping to introduce as soon as possible an automated trading system to cover the extra trading time. At present the pit trading finishes between 5.15 pm and 5.30 pm.

The extension, effective from January 11, will mean that the IPE's gas oil and Brent crude futures contracts will stop trading each day at about the same time as contracts on the New York Mercantile Exchange, its major rival.

The IPE believes the move will "greatly enhance volume and liquidity in due course." Gas oil futures have been trading at record volumes over the past 10 days as prices have surged on the back of the cold weather.

Mr Peter Wildblood, IPE chief executive, said Brent physical traders had urged the change, which would improve the opportunities for arbitrage with the New York market.

'Moderate' outlook seen for Australian mining industry

By Chris Sherwell in Sydney

A LACK of new resource discoveries and mining restrictions on exploration areas have produced only a "moderate" outlook for investment in Australia's mining industry, according to the industry's senior body.

The Australian Mining and Industry Council offered this unexpectedly cautious pointer to the future yesterday when it presented the 1989 findings of its annual survey of the industry's financial performance by the accounting firm Coopers & Lybrand.

The findings show a further strong improvement in the year to June. The return on shareholders' funds increased to 18.3 per cent from 15.6 per cent in the previous year. Net profits advanced by 53 per cent to a record A$2.88bn (£1.42bn), and operating revenues climbed by 20 per cent to A$20.76bn.

But according to Mr Peter Barnett, head of the Pasminco lead and zinc group and chairman of the AMIC's economics committee, the trend reflected investment decisions during more depressed times as well as higher world prices more recently.

Very good years were required to balance very poor years, he declared, and the increase in profitability of the past two years had only partially compensated for a generally depressed decade.

The investment outlook was "moderate" because of a lack of new resource discoveries and restrictions on exploration over the past decade, he said. On top of this, introduction of the gold tax would hurt that sector, and there were major obstacles to minerals processing.

Although investment in smelting and refining was tipped to rise by 30 per cent in the current year after a strong 17 per cent increase in 1988-89, he said the potential for Australia to add value to its mineral resources was not being fully realised.

In particular he called for further micro-economic reform to deal with Australia's high construction and labour costs, its protection of inefficient industries, its high energy costs and heavy state government imposts.

The industry is especially anxious about restrictions on exploration.

According to the survey, at least A$150bn-worth of minerals *has already been quarantined* in national parks – more than the country's gross foreign debt. It adds that, since 1987, the mining industry has built a total of 25 new towns, 12 new ports, 20 airfields, 1,900 km of railway.

Other findings showed that, in 1988-89, mining exports were boosted by volume growth in gold and aluminium and strong price rises for base metals. Higher contract prices for coal and iron ore are expected to lift receipts in the current year.

Total borrowings by the industry meanwhile decreased to A$10.3bn from A$11.4bn, and they have now declined 23 per cent from their peak in 1985-86. The amount of debt denominated in foreign currency has fallen 42 per cent.

Indonesia's coffee pact hopes fade

By John Murray Brown in Jakarta

INDONESIA, THE world's third biggest producer of coffee, has attacked the Philippines for failing to support its demand for an increased quota under the International Coffee Agreement, which was suspended in June.

According to officials, President Suharto last week criticised the Philippines for failing to back a fellow member of the Association of South East Asian Nations in the coffee talks.

The message was conveyed to Philippine officials during an inconclusive meeting of Asia Pacific producers in Bali last month, and at the recent Asean economic ministers meeting in Brunei. The Philippines withdrew from an earlier attempt to form an Asian Pacific coffee bloc.

Jakarta now holds out little hope for a resumption of talks to establish new export quota shares in the $7bn-a-year world coffee market. Indonesia wants an increase in its current quota of 162,000 tonnes which represents less than half of its total production. It has said quotas should be assessed on "objective criteria" like current exportable production.

Indonesia, one of the world's lowest cost producers, grows robusta coffees, a coarse variety traditionally used for high roast blends in France and Italy and more recently for the production of instant coffees. It is currently taking full advantage of the free market in coffee to boost exports for the season just ended in October to 6.08m bags (60 kg each) from 4.4m bags in 1988.

Because of the poor prices export, however, values barely rose from $520m to $530m.

A large part of Indonesia's coffee production is in the hands of smallholders, often farming less than a couple hectares of land, which has helped to limit the impact of the price fall.

More than half of Indonesia's exports went to non-ICO countries, where it is allegedly resold to importers in member countries at discounts. This so-called two-tier market was a major sticking point for consumer delegates to the 74-nation organisation.

WEEKLY METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,680-1,725 (1,725-1,760).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 4.10-4.50 (4.20-4.60).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, 4.75-5.20 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.40-7.70 (7.40-7.60).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 240-255 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.50-2.60 (2.58-2.66).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.50-6.10 (5.40-6.00).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 44-51 (44-60).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 2.30-2.50 (same).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.60 (same).

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER prices again came under pressure on the LME yesterday. The market continues to drift towards the summer lows in the absence of fresh supportive factors, analysts said. Most operators are focussing attention on Comex, where prices for March were approaching the crucial $1 a lb chart support level. Lead prices were also in retreat, although support is expected to emerge at yesterday's *closing level* – LME stocks are low, leaving the market vulnerable to supply disruptions during the peak winter demand period for replacement batteries in the Northern Hemisphere. On the bullion market gold's advance was checked by options related selling, but support around $415 an ounce held firm. Cocoa *prices firmed – dealers said the* continued absence of origin selling was encouraging buyers to come into the market.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$16.90-7.00z	+.025
Brent Blend	$19.45-9.50z	
W.T.I. (1 pm est)	$20.80-0.83z	+.03
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$190-192	
Gas Oil	$221-222	-2
Heavy Fuel Oil	$116-118	-1
Naphtha	$171-172	-3
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$417.25	+.50
Silver (per troy oz)♣	570c	-3
Platinum (per troy oz)	$512.25	+6.45
Palladium (per troy oz)	$140.15	-.30
Aluminium (free market)	$1600	-5
Copper (US Producer)	109½-112c	
Lead (US Producer)	39.5c	
Nickel (free market)	405c	+0
Tin (Kuala Lumpur market)	17.90r	+.11
Tin (New York)	314c	+2
Zinc (US Prime Western)	73¼c	
Cattle (live weight)†	114.22p	-.85*
Sheep (dead weight)†	202.52p	-4.56*
Pigs (live weight)†	67.13p	-2.11*
London daily sugar (raw)	$328.4z	-4.6
London daily sugar (white)	$372.0z	-4.5
Tate and Lyle export price	$319.0	-8.0
Barley (English feed)	£116.0	
Maize (US No. 3 yellow)	£128.5	
Wheat (US Dark Northern)	£132.0	+2.75
Rubber (spot)♥	54.75p	-.50
Rubber (Jan)♥	57.25p	-.50
Rubber (Feb)♥	58.25p	-.50
Rubber (KL RSS No 1 Jan)	225.0m	
Coconut oil (Philippines)§	$425.0x	+7.5
Palm Oil (Malaysian)§	$275.0	+10.0
Copra (Philippines)§	$280	
Soyabeans (US)	£171.0x	
Cotton "A" index	77.05c	+.90
Woolltops (64s Super)	578p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Oct. x-Dec/Jan. t-Jan/Mar. v-Nov/Dec. w-Dec. z-Jan †Meat Commission average fatstock prices. * change from a week ago. ♣London physical market. §CIF Rotterdam. ♥ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	680	670	675 670
Mar	660	652	660 650
May	672	663	670 661
Jul	684	677	684 676
Sep	698	692	697 691
Dec	721	710	721 714
Mar	740	735	739 735

Turnover: 2836 (1814) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec 12 776.96 (764.87); 10 day average for Dec 13 759.43 (756.31)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
Jan	659	667	671 657
Mar	661	671	671 658
May	672	684	680 667
Jul	688	699	698 688
Sep	706	718	712 706
Nov	725	735	732 723
Jan	745	755	753 752

Turnover: 3189 (2922) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec 11: Comp. daily 62.20 (61.56). 15 day average 01.30 (61.28)

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Mar	302.80	300.20	306.00 298.00
May	303.20	300.40	306.00 298.40
Aug	301.00	299.00	303.20 297.00
Oct	293.20	291.00	296.00 289.00
Dec	291.00	286.00	291.00 285.00
Mar	278.80	277.00	280.00 276.00
White	**Close**	**Previous**	**High/Low**
Mar	373.00	372.00	375.00 368.00
May	379.80	376.00	379.50 374.80
Aug	387.00	386.00	387.80 381.80
Oct	360.80	359.00	360.50 355.80
Dec	349.00	347.00	349.00 343.80
Mar	349.00	347.80	349.00 343.80

Turnover: Raw 3398 (1947) lots of 50 tonnes. White 1010 (1157) Paris- White (FFr per tonne): Mar 2915, May 2250, Aug 2231, Oct 2136, Dec 2100, Mar 2100.

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low
Feb	19.11	19.12	19.11 18.82
Mar	18.77	18.85	18.80 18.67
Apr	18.53	18.50	18.55 18.48
IPE Index	19.10	19.12	19.10

Turnover: 3709 (5705)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Dec	210.75	213.75	213.50 207.00
Jan	197.25	198.00	198.25 193.00
Feb	184.75	185.00	185.00 180.75
Mar	172.00	172.75	172.75 170.00
Apr	165.25	166.00	167.50 165.00
Jun	162.00	163.00	163.00 160.00

Turnover 9434 (17038) lots of 100 tonnes

JUTE

December/January c and f Dundee BTC $600, BWC $590, BTD $530, BWD $550; c and f Antwerp BTC $585, BWC $575, BTD $515, BWD $505.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 25,200 tonne
Cash	1515-20	1594-6	1620/1595	1595-600		
3 months	1615-20	1602-3	1620/1597	1605-6	1622-5	38,446 lots
Copper, Grade A (£ per tonne)						Ring turnover [illegible]
Cash	1471-3	1493-5	1473/1471	1471-2		
3 months	1467-8	1614-5	1610/1473	1466-8	1463-4	74,715 lots

Remaining LME rows (Lead, Nickel, Tin, Zinc Special High Grade, Zinc, LME Closing £/$ rate): [illegible]

Tables POTATOES – BFE, SOYABEAN MEAL – BFE, FREIGHT FUTURES – BFE, GRAINS – BFE (Wheat, Barley), PIGS – BFE, LONDON BULLION MARKET, TRADED OPTIONS (Aluminium, Copper (Grade A), Coffee, Cocoa, Brent Crude): [illegible]

COTTON

Liverpool-Spot and shipment sales for the week ended December 8 amounted to 22 tonnes against 511 tonnes in the previous week. Trading was fair with operations occurring in Russian, West African and Chinese growths.

US MARKETS

IN THE METALS, two-sided trading was featured in the gold and silver markets despite a heavy decline in the US Dollar, reports Drexel Burnham Lambert. Gold finished the session up slightly while silver closed soft. Copper futures were lower due mostly to weakness in the London market. The March contract lost 1.30 closing at 101.80. In the softs, trade buying and local short covering firmed the sugar. Origin selling and stop orders weakened the coffee. Cocoa gained from commission house activity. The grain markets were all slow ahead of the crop report. The livestocks were also quiet as consolidation was seen. The energy complex had sideways action for most of the day. Volume was again low.

New York

Tables GOLD 100 troy oz.; $/troy oz., PLATINUM 50 troy oz; $/troy oz., SILVER 5,000 troy oz; cents/troy oz., HIGH GRADE COPPER 25,000 lbs; cents/lbs: [illegible]

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	20.75	20.70	20.83	20.56
Feb	20.52	20.51	20.69	20.36
Mar	20.30	20.32	20.38	20.18
Apr	20.03	20.13	20.12	19.90
Jun	19.73	19.81	19.76	19.60

Tables HEATING OIL 42,000 US galls, cents/US galls; COCOA 10 tonnes;$/tonnes; COFFEE "C" 37,500lbs; cents/lbs; SUGAR WORLD "11" 112,000 lbs; cents/lbs; COTTON 50,000; cents/lbs; ORANGE JUICE 15,000 lbs; cents/lbs; INDICES (REUTERS (Base: September 18 1931 = 100), DOW JONES (Base: Dec. 31 1974 = 100)): [illegible]

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	577/0	579/0	578/0	574/4
Mar	590/4	592/2	591/4	587/4
May	602/4	603/4	603/2	599/0

Tables SOYABEAN OIL 60,000 lbs; cents/lb; SOYABEAN MEAL 100 tons; $/ton; MAIZE 5,000 bu min; cents/56lb bushel; WHEAT 5,000 bu min; cents/60lb-bushel; LIVE CATTLE 40,000 lbs; cents/lbs; LIVE HOGS 30,000 lb; cents/lbs; PORK BELLIES 40,000 lbs; cents/lb: [illegible]

LONDON STOCK EXCHANGE

Water issues dominate the market

THE START of dealings in the £5.24bn water privatisation issues dominated the UK stock market yesterday, providing the lion's share of the day's trading volume as well as most of the excitement. The privatisation launch went off "even better than anybody imagined," and traders were pleased to see premiums of 31 to 57 per cent on the ten issues involved.

The excitement in the new stocks peaked early, as did the prices. Northumbrian Water, which was the best favoured, touched a premium of just under 68 per cent at its peak moment. Allowing for some small uncertainty over precise trading volumes, the water issues appear to have provided more than 60 per cent of the day's Seaq volume of 800.4m shares.

With private investors unable to deal until they receive their share certificates and US and Japanese funds on hold until today, it was the European funds which provided the activity in the privatisation sector. UK Index-linked funds were believed to be active buyers, on the expectation that some of the new stocks will soon enter the FT-Actuaries All-Share Index. The share prices are likely to hold up well until the arrival of the UK private investors at the end of the week, when the institutions are likely to take up stock from private sellers.

Confidence over the range of the market received a boost from the success of the privatisation stocks. At best the FT-SE Index was more than 18 points up before enthusiasm cooled off. At its final reading of 2,363.5, the Footsie was a net 12.1 higher on the day.

The market is now within 2.5 per cent of the all-time peak of 2,426 on the FT-SE Index, reached on September 5, and there is no shortage of traders betting on a new peak before Christmas. However, many of the blue chip stocks performed sluggishly yesterday, despite indications in an interview with the Financial Times that Mrs Thatcher may have softened her views on prospects for full British entry into the European Monetary System.

Some strategists expressed caution over the market's short term prospects in view of its failure to hold its best levels yesterday. Tomorrow brings important data on the UK economy on average earnings and wage costs, both regarded as important inflationary pressures. On Friday the UK Retail Price Index for last month will give the latest indication on inflation. The market consensus is for an increase on the year-on-year rise of 7.3 per cent recorded in October.

Retail and consumer stocks, which have been weakening afresh this week as further signs of a poor Christmas trading season have surfaced, saw little activity yesterday. Also taking a back seat were the speculative issues which have lately been driving the market ahead.

Account Dealing Dates

*First Dealings:	Nov 27	Dec 11	Dec 27
Option Declarations:	Dec 7	Dec 21	Jan 11
Last Dealings:	Dec 8	Dec 22	Jan 12
Account Day:	Dec 18	Jan 8	Jan 22

*New time dealings may take place from 9.00 am two business days earlier

FINANCIAL TIMES STOCK INDICES

	Dec 12	Dec 11	Dec 8	Dec 7	Dec 6	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	83.77	83.82	83.14	83.02	82.98	86.86	89.29 (8/2)	82.93 (4/12)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	92.21	92.13	92.02	92.27	92.17	95.81	99.59 (15/3)	92.02 (8/12)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1861.5	1851.8	1862.0	1858.9	1859.8	1435.7	2008.8 (5/9)	1447.8 (3/1)	2008.8 (5/9/89)	49.4 (26/6/40)
Gold Mines	317.4	312.8	300.5	297.3	288.7	173.2	317.4 (12/12)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2363.5	2351.4	2363.6	2348.7	2353.7	1752.6	2426.0 (5/9)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.57	4.59	4.58	4.61	4.58	5.18				
Earning Yld %(full)	11.14	11.19	11.16	11.23	11.12	13.01				
P/E Ratio(Net)(*)	10.67	10.62	10.65	10.78	10.69	9.26				
SEAQ Bargains(5pm)	49,723	23,426	30,413	28,822	27,894	20,304				
Equity Turnover(£m)†	-	622.26	826.00	897.31	947.22	929.44				
Equity Bargains†	-	24,508	32,305	30,974	27,924	23,569				
Shares Traded (ml)†	-	294.5	427.7	419.1	395.7	391.4				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ● Nil 10.79

Ordinary Share Index, Hourly changes — Day's High 1866.8 — Day's Low 1854.4

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1854.7	1855.9	1864.5	1862.8	1862.9	1862.6	1864.2	1860.9

FT-SE, Hourly changes — Day's High 2369.7 — Day's Low 2355.0

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2355.0	2358.7	2368.7	2363.5	2363.1	2363.1	2364.5	2360.8

GILT EDGED ACTIVITY

Indices*	Dec 11	Dec 8
Gilt Edged Bargains	81.1	84.8
5-Day average	83.3	83.4

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. London report and latest Share Index: Tel. 0898 123001.

Water stocks sparkle

The stock market debut of the ten water businesses floated by the Government went like an express train, according to one dealer, outstripping even the most optimistic forecasts of opening premiums. The thirteen marketmaking teams spread around the City went into action at 9am and hoisted their opening prices well beyond expectations. The opening levels for the ten companies ranged from 138p to 168p.

The star performer was Northumbrian, the smallest of the ten companies and the most oversubscribed of the group; private investors applied for nine times the number of shares on offer. Northumbrian shares were heavily bought by institutions which lost out on the initial offer and were said to be keen on the company's obvious qualities of good management, yield and the chances of a takeover being launched for the group when the "golden share" is lifted.

Next in the pecking order of opening premiums came Wessex, 148p, followed by South Western and Yorkshire, 143p, North Western, 142p, Southern 141p and Anglian and Thames at 140p. Welsh Water shares began public life at 138p while the wooden spoon went to Severn Trent which opened at 135p. The package of shares, which comprises 1,000 shares of the water companies, ranging from as few as 30 Northumbrian to 76 Thames, opened at 1430p.

Fast and furious

Closing levels for the ten companies were; Northumbrian, 157p; Wessex, 154p; Yorkshire, 149p; Anglian, 146½p; Southern, 147p; Welsh, 141p; South Western and Thames, 136p; North West, 135p and Severn Trent 131p. The Package Units settled at 1395p. Marketmakers said the action was fast and furious during the first couple of hours of trading, petered out over lunchtime, and revived as the session drew to a close.

Among individual stocks one UK securities house was said to have had a buying order for 10m shares in Anglian, while there were also stories of a big buyer for Wessex stock.

Mr Stephen Doe, water stocks analyst at Smith New Court, labelled the flotation a "huge success," but he cautioned that share prices "will come back," forecasting a wave of selling from Monday when investors are due to get their interim share certificates.

The success of the issue, according to Mr Nigel Hawkins ofHoare Govett, was "the realisation of the institutions of the fundamental strength of high yielding water stocks with their recession-proof earnings. The Hoare analyst explained the glittering performance of Northumbrian by pointing to the tight market in the shares and the fact that French water company Lyonnais owns two of the private water companies in the North East, Newcastle and Gateshead and Sunderland and South Shields. He said Lyonnais might seek a strategic stake of up to 15 per cent in Northumbrian and look for control when the 5-year protection of the golden share runs out.

Total turnover in the ten companies came out at 423m with the Package Unit attracting a turnover estimated by several analysts as representing an additional 230m shares. Individual turnover were as follows: North West, 74m shares; Severn Trent, 72m, Anglian, 64m; Thames, 54m; Yorkshire, 40m; South West, 34m; Southern, 29m; Welsh, 28m; Wessex, 24m and Northumbrian 14m.

Activity in Racal

The Racal twins came out with interim profits well in excess of the most optimistic forecasts, especially Racal Telecoms. The latter's pre-tax profits were £75.15m, against a comparable figure of £30.57m, and a good £10m above expectations. Telecom's share price mirrored the excellent figures and closed a net 14 higher at 403p, having been as high as 409p immediately the results became available. Turnover was 1.1m.

Racal Electronics' results, showing pre-tax profits more than 30 per cent ahead at £82.6m compared with £63.4m and around the top end of expectations, drew a less enthusiastic response from the market with Electronics' share price closing a net 2 up at 241p. Turnover in the latter rose sharply in the wake of the numbers, eventually reaching just short of 9m shares.

Commenting on the figures, Mr Christopher Tucker, electronics analyst at Kitcat & Aitken, said Telecoms' results were excellent but that he was not changing significantly his full year estimate of £158m. "A rating of 35 times does not leave much scope for disappointment."

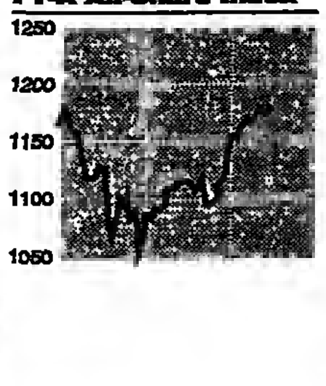
The success of the water stocks flotation triggered a bout of sympathetic buying of British Gas shares which moved up 4 to 228½p on good turnover of 14m shares; "We're in for a spell of demand for Gas; high yielding utility-type stocks are now in vogue," said one specialist.

The continuing very cold weather across the United States prompted renewed demand for crude oil and gas and was said to have been behind keen interest for the top oil stocks. BP, where well over 9m shares changed hands, added 4 at 333p. Shell moved up 7 to 482p on 3.1m. British Borneo, regarded by traders as more an investment holding company than an oil stock, jumped 40 more to 630p – a two-day gain of 65 with analysts saying the value of the group's holdings, mainly top quality stocks like Shell and BP, is in excess of 750p a share.

Another to lack enthusiasm was BAT Industries, a shade easier at 827p after the market's concern over the lack of developments on the Hoylake bid front was strengthened by news that the Californian insurance commissioners have postponed their hearings on the Farmers Group interests and will not now deliver a decision until May 14.

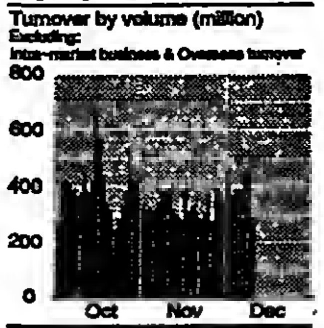
Abbey National shares responded to another bout of persistent and often heavy buying interest, closing a further 4 up at a record 170p after turnover of 6.1m. The Scottish banks were highlighted by a number of switching orders, out of Royal Bank, where takeover speculation has faded with news that Dresdner Bank and Banque Nationale de Paris are looking to buy Yorkshire Bank, and into Bank of Scotland, which has been overlooked in the recent strong run by the sector. Royal Bank shares eased 3 to 197p while Bank of Scotland aded 2 at 114p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



Composite insurers were broadly firmer but turnover tended to be concentrated in Guardian Royal Exchange, talk that the so-called stakebuilder of last month had reappeared again, saw GRE shares up 5 at 262p, after 263p on good turnover of 4.3m, which included single trades of 700,000, 1m, and 527,000 shares.

There was plenty of action however, in second line properties. Control Securities carried on its advance with a rise of 6¼ to 51p on continued talk that it might spin off its Belhaven pubs and brewing arm. Some market watchers were sceptical. One brewery analyst cast doubt on the existence of a strong market for Belhaven should Mr Nazmu Virani, the chairman, choose to sell it.

News of acquisitions and and a vendor placing of shares left Vaux Group, the North East Brewer, weaker as the company reported full year figures in line with market expectations.

Profits rose 20.5 per cent to £31.5m, while earnings per share were up 16 per cent at 18.61p, with the final dividend 20 per cent up at 7.84p.

The company announced the acquisition of the Gosforth Park Hotel for £27.3m, and two new care homes. Vaux said it was to finance the acquisition through a vendor placing and open offer of new shares. The new shares will be placed at 305p and will represent almost 8.99 per cent of the enlarged share capital.

An analyst said: "The market was surprised by the share issue and perceived it as a rights issue by another name."The shares eased 14 to 322p.

A number of "surprise" items included in full year figures from Granada, the TV and leisure group, published yesterday, failed to impress the market causing the shares to go lower. The company reported an increase in profits to £164.1m, while earnings per share rose from 29.3p to 31.9p.

The market was unhappy with the group's poor performance from overseas retailing and rentals, and the £41.4m the company decided to take below the line as extraordinary items for the withdrawing from specialist retailing and other operations.

Several analysts downgraded profit expectations for the coming year following the results. Mr Bruce Jones at Kitcat & Aitken trimmed his 1990 forecast from £180m to £178m said: "It looks like a dull stock to hold for 1990. It's back to the Granada of the old days." The shares fell 13 to 302p.

The news that the chairman had sold 1.3m shares in Carlton Communications sent the shares lower. They continued to be affected by poor sentiment following tha previous day's lower than expected full year figures and lost another 20 to close at 832p.

Interim figures at the low end of market expectations sent Dowty lower, reversing the company's recent upward movement.

The company prodnced a rise in profits of 13.5 per cent to £37m. Earnings per share remained unchanged at 9.2p, though the interim dividend rose by 9 per cent to 3.5p.

The company blamed industrial action for biting into profits though analyst also pointed to lower than expected profits from property sales.

Several securities houses downgraded full year profit forecasts following the release of the interims among them Citicorp Scrimgeour Vickers, which cut its forecast from £93m to £89m.

Mr Martin Smith at Citicorp said the figures were "disappointing" but said Dowty was attractive in the long term because of growth prospects in civil aerospace, electronics systems, and the information technology division. The shares eased 13 to close at 225p.

Positive sentiment surrounding privatisation stocks as the water issues made their debut lifted British Steel which added 3 to 132p as 13m shares were traded.

The agreed £56m takeover of Builder Group announced after the market closed on Monday pushed EMAP 3 higher to 234p. EMAP owns 9 per cent of Builder, and the feeling in the market was that it would not make a counterbid but sell to the buyer, the French group CEP Communications, for a profit. Furthermore, the takeover values Builder at 33.3 times historic earnings which, said sector specialists, makes magazine publishers such as EMAP and Reed International, which rose 13 to 489p, look undervalued.

Spring Ram, the building materials manufacturer, made further progress, closing 2 higher at 107p; Manchester brokersHenry Cooke Lumsden were keen buyers of the stock after lunching with senior executives of the group on Monday and upgrading their profits forecasts for the company. Mr Stuart Forshaw, the firm's building analyst, has changed his recommendation from hold to buy and expects Spring Ram to achieve pre-tax profits of £25m, or 9p of earnings this year rising to £30m, or 11p of earnings for the year to end-Dec 1990.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 21

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	279	352	
ASDA Group	7,800	109	
Abbey National	8,100	170	+4
Allied-Lyons	833	480	+9
Amstrad	2,400	42	
Argyll Group	1,800	217	-6
Ass. Brit. Foods	803	428	+2
BAA	947	392	+6
BAT Inds.	1,100	827	-1
BET	488	278	+1
BICC	383	478	+1
BOC	857	538	+4
BPB Inds.	187	221	+1
BTR	1,300	458	+2
Barclays	1,500	552	+6
Bass	302	1042	+4
Beazer	489	165	-2
Berisford Intl.	228	182	+5
Blue Arrow	282	88	-1
Blue Circle	858	236	-1
Boots	1,800	320	
Brit. & Comm.	2,400	98	+2
Brit. Aerospace	2,800	551	-12
British Airways	2,300	211	+2
British Gas	14,000	228½	+4
British Land	108	386	+1
BP	9,300	333	+4
British Steel	13,000	131½	+2½
British Telecom	8,300	286½	+1
Bunzl	922	183	
Burmah Oil	84	579	-1
Burton	164	134	-1
Cable & Wire.	1,400	526	+5
Cadburys	2,360	354	+2
Calor Group	381	439	
Carlton Comms.	3,400	832	-20
Coats Viyella	198	143	

	Volume 000's	Closing Price	Day's change
Comm. Union	815	489	+7
Cookson	49	273	+2
Courtaulds	486	387	-1
Dalgety	346	403	+8
Dixons	843	136	
Eng. China Clays	887	445	+12
Enterprise Oil	576	668	+2
FKI	646	81	-2
Ferranti	1,900	39½	-1½
Fisons	2,100	363	+2
Gen. Accident	172	1170	+8
General Elect.	3,700	224	+2
Glaxo	1,300	797	+8
Globe Inv	330	187	+1
Glynwed Int.	226	248	+2
Granada	1,800	302	-13
Grand Met.	983	601	+3
GUS A	113	1130	+8
GRE	4,300	262	+5
GKN	497	422	+3
Guinness	1,400	863	+8
Hammerson 'A'	14	828	+1
Hanson	3,800	223½	+1
Hanson Warrants	128	54	
Harrisons Cros.	318	156	+4
Hawker Sidd.	257	674	+8
Hillsdown	828	274	+2
IMI	37	211	+1
ICI	786	1125	+1
Inchcape	326	294	
Jaguar	8	845	
Kingfisher	375	290	+3
Ladbroke	886	315	-1
Land Securities	646	622	+8
Laporte	82	476	+1
Legal & General	2,000	410	-1
Lloyds Abbey	43	298	

	Volume 000's	Closing Price	Day's change
Lloyds Bank	878	433	
LASMO	7,100	591	+13
Lonrho	3,200	302	+4
Lucas	361	639	+4
MB Group	254	197	
MEPC	2,100	526	+6
Marks & Spencer	888	198	
Maxwell Comm.	817	236	+1
Mecca Leisure	283	183	
Midland Bank	1,498	372	-1
NatWest Bank	2,600	336	+1
Next	1,100	81	
Northern Foods	282	316	+6
Pearl	1	888	
Pearson	315	781	+2
P & O	210	694	+4
Pilkington	1,200	234	-2
Polly Peck Intl.	1,500	403	-10
Prudential	2,800	222	+1
RHM	327	419	+1
RMC	127	685	-4
RTZ	1,800	517	+1
Racal	8,800	241	+2
Racal Telecom	1,100	403	+14
Rank Org.	810	837	-7
Reckitt & Colman	48	1265	+2
Redland	1,000	540	-5
Reed Intl.	1,300	489	+13
Reuters	296	1082	+2
Rolls Royce	1,400	171	-1
Rothmans	175	686	
Ryl Bk Scotland	148	197	-3
Royal Insurance	837	519	+7
STC	987	270	+6
Saatchi	387	259	-8
Sainsbury	731	287	-3
Scottish & Newc.	1,700	344	+2

	Volume 000's	Closing Price	Day's change
Sears	708	106	+1
Sedgwick	141	301	+1
Shell Transport	3,100	482	+7
Siebe	231	464	+2
Slough Ests	82	337	
Smith (W.H.) A	348	332	+8
Smith & Nephew	883	120	+½
SmithKline Beecham	686	604	+1
SmithKline Beecham Eq. Uts.	12	2666	-2
Smiths Inds.	1,100	294	-7
Standard Chartd.	915	685	+10
Storehouse	1,400	113	
Sun Alliance	2,080	323	+1
Sun Life	41	1260	+12
T&N	182	202	+8
TI Group	278	434	
TSB	2,100	129	+2
Tarmac	2,300	239	+1
Tate & Lyle	807	274	+2
Taylor Woodrow	880	298	+7
Tesco	1,400	198	+1
THORN EMI	894	777	-2
Trafalgar House	1,300	383	-2
Trusthouse Forte	1,000	309	+5
Ultramar	1,900	309	+2
Unigate	185	306	+1
Unilever	380	702	
United Biscuits	871	384	+2
Utd. Newspapers	166	473	
Wellcome	146	780	+6
Whitbread 'A'	331	368	+2
Williams Hldgs.	747	248	+1
Willis Faber	841	271	-1
Wimpey	383	248	+1

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (64)

BRITISH FUNDS (1) Treas. 3pc E. 1990, CANADIANS (1) Corona Corp., BANKS (2) Abbey National, Deutsche Bk., CHEMICALS (1) Coates Bros., ELECTRICALS (1) Rose Bros., FOODS (1) Salvesen (Christian), INDUSTRIALS (2) Astra AB, Heatair, NEWSPAPERS (1) Builder Group, PAPERS (2) Smurfit (J.), TMD Adv., TRANSPORT (1) BAA, TRUSTS (16) Alliance Tst., American Tst. 'B', Brit. Emp. Secs., Edinburgh Inv., Elect. & Gen., European Assets, Fleming Universal, Flexitech, India Fd., Majedie Invs., Mid Wynd, Murray Smllr. Mids., Do. 'B', Scot. Mort. & Tst., Scott. Inv. Tst. Wrrnts., TR Australia, OILS (7) Aviva Pet., British Gas, Brit. Borneo, Gt. Western Res. Class 'A', LASMO, Richmond Oil & Gas, Shell, OVERSEAS TRADERS (2) Mitsubishi, Sime Derby, MINES (36) Bracken, Buffels, Cluff Oil Wrrnts., Cluff Res., Driefontein, Durban Deep, East Daggs, F.S. Cons. Gold, Free State Dev., Gold Fields S.A., Grootvlei, Harmony, Homestake Mining, Libanon, Loraine, OFS Inv., Randfontein, Rand Mines, St. Helena, Stilfontein, Vaal Reefs, Venterpost, Welkom Gold, Western Deep, Winkelhaak, THIRD MARKET (1) Barbican.

NEW LOWS (33)

AMERICANS (2) IBM, Gt. American Bk., BUILDINGS (2) Federated Housing, Wiggins Grp., CHEMICALS (1) European Colour, STORES (2) Blacks Leisure, Empire Stores, ELECTRICALS (3) Northamber, P & P, Soundtracs, ENGINEERING (1) MS Int'l., FOODS (1) ASDA, INDUSTRIALS (7) Norton, Oriflame, Relyon, Scot. Heritable Tst., Shaw (A.), Silentnight, Tilton, MOTORS (1) Cook (D.C.), PAPERS (2) Burford, Saatchi, PROPERTY (1) Sallmanns (U.K.), TEXTILES (1) Mackay Hugh, TRANSPORT (1) TNT, TRUSTS (4) Centreway, City & Westminster, Jakarta Fd., Westpool, OVERSEAS TRADERS (1) Grand Central, MINES (2) Butte, Eldera Res., THIRD MARKET (1) Amercoeur Energy.

APPOINTMENTS

NPI board elects Lord Remnant as chairman

Lord Remnant, chairman of Touche Remnant until mid-1989, has been elected chairman of the NATIONAL PROVIDENT INSTITUTION by its board, effective from the start of the new year.

He replaces Mr Jeremy Hardie who, as was announced earlier this year, is retiring from the NPI board after 17 years service, of which nearly 10 years have been spent as chairman.

Lord Remnant, who is 59, has been on the board of NPI since 1963. He is deputy chairman of Ultramar and on the main board of the Bank of Scotland. He is now international adviser of Touche Remnant, which was purchased by Société Générale this year.

Sir Christopher Foster, of Coopers and Lybrand, who was chairman elect at NPI, has resigned from the NPI board. He took this action to avoid possible conflicts of interest arising from the proposed merger, announced in October, of Coopers and Lybrand with Deloittes, who are NPI's auditors. Sir Christopher had joined the NPI board in May this year as deputy chairman.

■ Mr Barry Hartop has been appointed to the new post of managing director of the office products division of GESTETNER HOLDINGS. He was chairman and chief executive of Lever Industrial, part of Unilever.

■ Mr Peter Driessen, chief executive for real estate investments, The Noro Group, has been appointed a non-executive director of NEW CAVENDISH ESTATES. Mr Tudor Roberts, a non-executive director, has resigned.

■ Mr Clive Challoner has been appointed managing director of GLAXO MANUFACTURING SERVICES, a new subsidiary of the Glaxo Group. He was technical director, Glaxo Pharmaceuticals.

■ SES HOLDINGS, Manchester, has appointed Mr Maurice Jones as general manager, marine division, of subsidiary SES Electrotechnic Services. He was manager, marine technical services, Ocean Fleets.

■ Mr Christopher Burnett, chief executive of Silentnight Holdings, and been appointed a non-executive director of VIVAT HOLDINGS. Mr Jean-Claude Cavalie, managing director of Lee Cooper International, becomes an executive director on the same date, January 1. Maitre E. Lindenfield resigns as a non-executive director at the end of 1989. He will continue to be involved in Vivat's Swiss subsidiaries.

BRITISH AND COMMONWEALTH MERCHANT BANK appointed Mr Stephen White *(above)* as director responsible for developing the bank's leisure sector business.

Prior to joining BCMB, Mr White was executive director, investment for the Welsh Development Agency. He previously served as a director of County Bank, spending some 10 years with the company.

■ HALLS TRADITIONAL CONSERVATORIES, part of the Halls Homes & Gardens group, has promoted Mr R.V.H. Wilsher to sales director from commercial sales manager.

■ CONTINENTAL REINSURANCE LONDON, comprising Unionamerica Insurance Co, and Continental Reinsurance Corporation (UK), has appointed Mr Timothy P. Open to the board of Unionamerica Management.

■ CADENCE DESIGN SYSTEMS has appointed Mr Michael Northwood as vice president and general manager of European operations. Previously he held a similar position with CAECO. Mr Paul Greenfield becomes vice president for Norther Europe. He was sales director at Dazix.

■ COMMODORE INTERNATIONAL has set up Commodore Marketing International in London. Mr Peter Bayley has been appointed managing director; Mr Jim Horsborough, product marketing director; Mr Peter Turner, channel strategy director; Mr Mike Grant, marketing communications director; Mr Eddy Marle, market research director; and Mr Simon Dismore, strategic marketing director.

■ Mr Idris Roberts has been appointed operations director of RUSSELL HOBBS TOWER from the New Year. He was general manager, STC Communications.

■ Mr Gerald R. Fitzjohn and Mr Alastair R.G. Gunn have been appointed to the board of HAMBRO COUNTRYWIDE. Mr Gunn is director and general manager, Hambro Guardian Assurance; and Mr Fitzjohn is managing director, Taylors (a Hambro Countrywide subsidiary).

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Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	55.67	56.11	59.78	-0.67	4.59
Gilts & Fixed Int	6	106.90	106.90	113.50	+0.80	8.81
High Inc Equity	6	136.90	136.90	146.50	+1.60	4.33
Worldwide Bond	6	206.30	206.30	218.50	-1.60	4.35
Capital Growth						
American Growth	6	202.50	204.30	217.40	[illegible]	[illegible]
Asian Pacific	6	119.50	121.90	129.70	[illegible]	[illegible]
Assets & Earnings	6	157.50	157.50	169.50	[illegible]	[illegible]
Capital Reserve Acc	0	88.40	88.40	88.50	[illegible]	[illegible]
Capital Reserve Inc	0	78.45	78.45	78.59	[illegible]	[illegible]
Comdty & Energy	6	118.90	118.95	127.20	[illegible]	[illegible]
Dividend & Growth	6	47.00	47.00	50.00	[illegible]	[illegible]
1992 Enterprise	6	62.41	63.78	67.[illegible]	[illegible]	[illegible]
Euro Capital Acc	6	100.60	101.30	107.[illegible]	[illegible]	[illegible]
Euro Capital Inc	6	96.97	97.66	103.[illegible]	[illegible]	[illegible]
General	6	182.10	181.10	193.70	[illegible]	[illegible]
International	6	60.85	61.65	65.59	[illegible]	[illegible]
Japan	6	127.20	129.50	137.00	[illegible]	[illegible]
Mastertrust	6	93.85	93.85	100.40	[illegible]	[illegible]
UK Growth Acc	6	178.80	178.80	191.30	[illegible]	[illegible]
UK Growth Dist	6	118.10	118.10	126.40	[illegible]	[illegible]
US Emerging Cos	6	54.60	56.08	59.67	[illegible]	[illegible]
Income & Growth	6	309.10	309.10	330.60	[illegible]	[illegible]
Ethical	5	46.96	46.96	50.23	[illegible]	[illegible]

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Amer Inc & Growth	5¼	33.70	33.70	35.97	[illegible]	[illegible]
European	5¼	77.99	78.12	83.39	[illegible]	[illegible]
European Income	5¼	75.40	75.40	80.57	[illegible]	[illegible]
Exempt	1	783.1	783.1	814.5	[illegible]	[illegible]
Extra Income	5¼	43.90	43.98	46.93	[illegible]	[illegible]
F East Emerg Econs	5¼	63.00	63.42	67.95	[illegible]	[illegible]

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The minimum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♣ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

هكذا من الاصل

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

Wardley Unit Tst Mngrs Ltd (0900)H
3 Harbour Exchange, London, E14 9GJ

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American	5¼	72.89	72.89	[illegible]	-0.64	[illegible]
Intl Growth	5¼	85.56	85.56	[illegible]	-1.28	1.0
Income	5¼	129.6	129.6	[illegible]	+0.60	4.7
Japan Growth	5¼	252.7	252.7	[illegible]	-3.00	0.1
Pacific Perf	5¼	168.5	168.5	[illegible]	-0.20	0.1
Small Co's	5¼	128.3	128.3	[illegible]	-0.20	1.4
Technology	5¼	34.67	34.67xd	[illegible]	-0.69	0.1
Australia	5¼	64.29	64.29	[illegible]	-1.07	3.3
UK Trust	5¼	175.8	175.8xd	[illegible]	-1.02	2.6
European Growth	5¼	76.79	76.79	[illegible]	-0.12	0.1
Hong Kong	5¼	34.66	34.66	[illegible]	-0.34	1.8
Intl Income	5¼	22.33	22.33	[illegible]	-0.09	7.5
Sm & Mkts Gth	5¼	38.64	38.64	[illegible]	+0.48	0.1
British Winners	5¼	26.28	26.28	[illegible]	[illegible]	1.8
Japan Smllr Cos	5¼	30.83	31.04	[illegible]	[illegible]	0.1

Waverley Unit Tst Mngmt Ltd (1000)F
13 Charlotte Sq, Edinburgh 031-225 1551

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Australasian Gold	6	16.42	16.42	17.46	+0.02	0.00
Pacific Basin	6	31.13	31.13	33.11	+0.26	0.60
Can Balanced Gwth	6	48.91	48.91	52.03	-0.44	0.64
Glonie Mar	9	0.9736	0.9736	1.0182	+0.06	7.59
Penny Share	6	28.55	28.55	30.37	+0.10	0.50

Wellington Fund Mngrs Ltd (1200)F
2, London Bridge, SE1 01-407 4404

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Wellington Income	5¼	140.6	142.3	151.4	+2.3	4.97
Wellington Growth	5¼	230.2	230.2	247.4	+0.9	1.38

Wessex Asset Management (1330)F
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Wessex UK Gwth	4¾	111.0	114.6	119.3	+0.1	4.09

Whittingdale Unit Tst Mgmt Ltd
2 Honey Lane, London EC2V 8BT 01-606 3132

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Challenger & F	2¼	62.48	62.48xd	64.05	—	0.00
Short Dtd Gilt F	1¼	82.35	82.33	83.43	—	8.44
U.S. Govmt Bond F	1¼	5.5785	5.5785xd	5.5661	—	8.00

Willbro Financial Services Ltd (0905)F
PO Box 515, 6 Broadgate, London EC2 01-588 7511

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Amt Fries W wide	5	202.7	206.2	219.3	—	2.41

Windsor Trust Mngrs Ltd (1200)F
83 Kingsway, London, WC2B 6SD 01-405 8331

[illegible]

AEtna Life Insurance Co Ltd—Contd.
Pension Funds (Accumulation Units)

	Bid Price	Offer Price	+ or -	Yield Gross
Squirrel	15.78	16.62	+0.02	—
Bear	17.26	18.17	+0.12	—
Owl	23.00	24.22	+0.15	—
Bull	20.74	21.84	+0.01	—
Stag	20.14	21.21	-0.02	—
Gilt Edged	13.85		+0.07	—
Deposit	13.57		—	—
North American	11.11	11.70	-0.08	—
European	11.70	12.32	+0.08	—
Property	11.91	12.54	+0.09	—
Index-Linked	11.87	12.50	+0.03	—
Far Eastern	15.06	15.86	-0.08	—
UK Equity	15.95	16.72	+0.06	—
Fixed Interest	12.10	12.74	+0.06	—
Gilt Edged (B)	10.01	10.54	+0.05	—
1982 Series				
Managed	296.84	312.47	-0.21	—
Pre 1982 Series				
Aetna Life				
3 Way	701.00	701.01	+2.31	—
Equity Pensions	225.80	225.81	+0.49	—
Aetna Pensions Ltd				
3-Way Managed	641.63	641.63	-7.82	—
Nominal Assured				
Mixed Managed	221.99	225.41	+0.66	—
Gilt Edged	13.85		+0.07	—

Albany Life Assurance Co Ltd
3 Darkes Lane, Potters Bar EN6 1AJ 0707 42311

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Brit. Blue Chip Fd Accld	146.7	154.4	+0.6	—
Equity Fd Accld	1075.5	1132.0	+6.2	—
European Fd Accld	280.1	294.8	+0.7	—
Intl Fxd Int Fd Accld	214.3	225.5	+0.1	—
Fixed Intl Accld	348.0	366.3	+1.6	—
Gtd Money Fd Accld	244.4	257.2	+0.1	—
High Income Fd Accld	120.9	127.3	+0.8	—
Intl Man Fd Accld	436.8	459.7	-4.1	—
Japan Fd Acc	320.5	337.5	-2.0	—
UK Smllr Co's Fd Accld	111.0	117.0	+0.2	—
European Metro	123.9	130.3	-0.8	—
Global Metro	109.3	115.0	-1.1	—
Sunrise Metro	127.2	133.9	-0.3	—

[illegible]

Cannon Assurance Ltd—Contd.

	Bid Price
European	127.0
Japan	297.3
Heritage Property	75.80
Intl Currency Bond	100.7
2nd Series Pension Accumulation	
Equity	754.9
High Income	553.9
Strategic Opps	107.4
Property	472.1
Managed 2	147.4
Managed	514.8
Managed 4	170.1
Deposit	349.4
Gilt	509.0
American	526.8
International Money	301.0
Index	153.3
Far East	409.7
Global	115.8
European	139.4
Japan	244.7
Heritage Property	77.80
Intl Currency Bond	105.4
Brewer Managed Funds	
St. Michael's Fund	141.4
Other Funds	
Equity Units	[illegible]
Property Units	[illegible]
Balanced Bond/Exec	£46.69

Citicorp British National
Perrymount Road, Haywards Heath

	Bid Price
Managed	259.9
International	304.6
Property	263.6
Equity	350.2
New Technology	188.1
American	126.6
Orient	120.2
European	113.4
Fixed Interest	274.4
Deposit	146.7
Managed Series 2	259.1
Property Series 2	265.1

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

INSURANCES

[illegible]

Continued on next page

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Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or −	Yield Gross
American	116.0	123.0	-4.0	—
Building Soc. Fd	178.0	188.0	—	—
Balanced	285.0	300.0	—	—
European	201.0	212.0	—	—
GT Managed	188.0	198.0	-1.0	—
Gartmore Mngd	129.0	136.0	—	—
German	165.0	174.0	—	—
Gilt	173.0	183.0	—	—
Global	49.0	52.0	—	—
High Inc	106.0	112.0	—	—
International Equity	202.0	213.0	—	—
Japan	293.0	309.0	—	—
Managed	59.0	62.0	—	—
Property	309.0	326.0	—	—
R. W. Imperial Gold	147.0	155.0	—	—
UK Equity	316.0	333.0	—	—
Pension Funds				
American	151.0	159.0	—	—
Building Soc. Fd	182.0	192.0	—	—
Balanced	224.0	236.0	—	—
European	202.0	213.0	—	—
German	145.0	153.0	—	—
Gilt	153.0	162.0	—	—
International Equity	144.0	152.0	—	—
Japan	148.0	156.0	—	—
Managed	64.0	68.0	—	—
Property	238.0	251.0	—	—
UK Equity	306.0	323.0	—	—

Professional Life Assurance Co Ltd
Frobisher Hse, Nelson Gate, Southampton 0703 232323

	Bid Price	Offer Price	+ or −	Yield Gross
Pensions Managed Fund	95.14	100.36	—	—
Pensions Cash Fund	82.55	86.99	—	—

Prolific Life & Pensions Ltd
Stramongate Kendall, Cumbria LA9 4BE 0539 733733
Managed Fund see Balanced Growth Managed Fund

Life Funds

	Bid Price	Offer Price	+ or −	Yield Gross
Balanced Grth Mngd	613.5	646.5	-1.2	—
Adventurous Mngd	135.8	143.1	-0.5	—

[illegible]

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

[illegible]

ISLE OF MAN (**)

[illegible]

LUXEMBOURG (**)

[illegible]

OFFSHORE INSURANCES

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
134¼	124	Treas 2pc IL '90£84 (6)	134¼	.....	2.09	9.98
99[illegible]	98[illegible]	Exch 11pc 1990‡‡	99[illegible]	–[illegible]	11.08	14078
101[illegible]	99[illegible]	Exch. 12½pc 1990	99[illegible]	.....	12.57	14.56
96[illegible]	91[illegible]	Treas. 3pc 1990	96[illegible]	.....	3.11	12.00
97[illegible]	95[illegible]	Treas 8¼pc 1987-90‡‡	97[illegible]	+[illegible]	8.47	13.78
98[illegible]	95¼	Treas. 8pc Cv 1990 ‡‡	96[illegible]	+[illegible]	8.25	13.78
98[illegible]	96[illegible]	Treas. 10pcCv 1990	96[illegible]	+[illegible]	10.32	13.83
93[illegible]	87[illegible]	Exch 2½pc 1990	92[illegible]	.....	2.69	10.72
101[illegible]	98[illegible]	Treas 11¾pc 1991	98[illegible]	+[illegible]	11.95	13.52
93[illegible]	89[illegible]	Funding 5¾pc '87-91‡‡	92[illegible]	–[illegible]	6.21	11.99
90[illegible]	86[illegible]	Treas. 3pc 1991	90[illegible]	.....	3.32	10.51
100[illegible]	95½	Treas 10pc Cv '91 ‡‡	95[illegible]	+[illegible]	10.41	13.00
101[illegible]	96[illegible]	Exch. 11pc 1991	97[illegible]	–[illegible]	11.32	12.74
94[illegible]	91[illegible]	Treas. 8pc 1991	92[illegible]	+[illegible]	8.68	12.59
106[illegible]	100[illegible]	Treas 12¾pc 1992‡‡	100¾	–[illegible]	12.67	12.34
99½	95[illegible]	Treas 10pc 1992	95[illegible]	+[illegible]	10.45	12.28
94[illegible]	90[illegible]	Treas. 8pc 1992 ‡‡	91[illegible]	+[illegible]	8.74	12.24
100[illegible]	96[illegible]	Treas 10½pc Cv 1992‡‡	96[illegible]	+[illegible]	10.85	12.06
85[illegible]	82[illegible]	Treas. 3pc 1992	84[illegible]	.....	3.55	10.22
105[illegible]	99[illegible]	Exch. 12¼pc '92	100[illegible]	+[illegible]	12.21	12.07
109[illegible]	103[illegible]	Exch 13½pc 1992	103[illegible]	+[illegible]	13.03	11.91
94[illegible]	90[illegible]	Treas 8¾pc 1993	92[illegible]	+[illegible]	9.07	11.71
100[illegible]	95[illegible]	Treas 10pc 1993‡‡	95[illegible]	+[illegible]	10.44	11.55
108[illegible]	101[illegible]	Treas 11½pc 1993‡‡	102[illegible]	+[illegible]	12.19	11.62
88[illegible]	84[illegible]	Funding 6pc 1993‡‡	85[illegible]	.....	7.02	10.81
113[illegible]	106[illegible]	Treas 13¾pc 1993‡‡	107[illegible]	+[illegible]	12.85	11.47
94[illegible]	89[illegible]	Treas. 8½pc 1994	90[illegible]	+[illegible]	9.41	11.48
117[illegible]	109[illegible]	Treas 14½pc 1994‡‡	110[illegible]	+[illegible]	13.12	11.29
113[illegible]	106[illegible]	Exch 13½pc 1994	[illegible]	+[illegible]	12.63	11.43
100[illegible]	94[illegible]	Treas. 10pc Ln. 1994‡‡	95[illegible]	+[illegible]	10.45	11.24
110[illegible]	102[illegible]	Exch. 12½pc 1994	[illegible]	+[illegible]	12.04	11.40
96[illegible]	91[illegible]	Treas 9pc 1994‡‡	92[illegible]	+[illegible]	9.79	11.16

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
108[illegible]	101[illegible]	Treas 12pc 1995	102[illegible]	+[illegible]	11.70	11.30

[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
103[illegible]	93¾	Conversion 9½pc 2005	95¾	+[illegible]	[illegible]	10.0[illegible]
111[illegible]	101½	Exch.10½pc 2005	103[illegible]	+[illegible]	10.1[illegible]	10.0[illegible]
125[illegible]	114¾	Treas. 12½pc 2003-05	116[illegible]	+[illegible]	10.7[illegible]	10.2[illegible]
90[illegible]	82[illegible]	Treas. 8pc 2002-06‡‡	84[illegible]	+[illegible]	9.5[illegible]	9.9[illegible]
118[illegible]	108[illegible]	Treas. 11¾pc 2003-07	110[illegible]	+[illegible]	10.[illegible]	10.2[illegible]
96[illegible]	86[illegible]	Treas 8½pc 2007 ‡‡	[illegible]	+[illegible]	9.[illegible]	9.8[illegible]
134[illegible]	122¼	Treas. 13½pc '04-08	124[illegible]	+[illegible]	10.[illegible]	10.2[illegible]
101[illegible]	91[illegible]	Treas. 9pc 2008 ‡‡	93[illegible]	+[illegible]	9.[illegible]	9.7[illegible]
93[illegible]	91[illegible]	Treas. 9pc 2008 B	93[illegible]	+[illegible]	9.[illegible]	9.7[illegible]
92[illegible]	83	Treas 8pc 2009	84[illegible]	+[illegible]	9.[illegible]	9.7[illegible]
102[illegible]	91[illegible]	Conv 9pc Ln 2011 ‡‡	93[illegible]	+[illegible]	9.[illegible]	9.7[illegible]
68[illegible]	61½	Treas. 5½pc 2008-12‡‡	62[illegible]	+[illegible]	8.7[illegible]	9.5[illegible]
89[illegible]	80[illegible]	Treas. 7¾pc 2012-15‡‡	81[illegible]	+[illegible]	9.[illegible]	9.6[illegible]
132[illegible]	118[illegible]	Exch. 12pc '13-'17	120[illegible]	+[illegible]	9.[illegible]	9.7[illegible]

Undated

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
45[illegible]	40[illegible]	Consols 4pc	40[illegible]	+[illegible]	9.80	
40[illegible]	35[illegible]	War Loan 3½pc‡‡	34[illegible]	+[illegible]	9.66	
70[illegible]	60[illegible]	Conv. 3½pc '61 Aft	61[illegible]	+[illegible]	3.67	
41[illegible]	31[illegible]	Treas. 3pc '66 Aft	32[illegible]	+[illegible]	9.30	
30[illegible]	25[illegible]	Consols 2½pc	25[illegible]	+[illegible]	9.73	
29½	24[illegible]	Treas. 2½pc	25[illegible]	+[illegible]	9.88	

Index-Linked

1989 High	Low	Stock (b)	Price £	+ or –	Yield (1)	(2)
112¼	103[illegible]	Tr. 2pc '92‡‡(97.8)	112	–[illegible]	2.90	4.0[illegible]
105[illegible]	94[illegible]	Do. 2 '94 (102.9)	105[illegible]	–[illegible]	2.83	3.3[illegible]
155[illegible]	139[illegible]	Do. 2pc '96(67.9)	155	.....	2.97	3.3[illegible]
130[illegible]	118[illegible]	Do 2½pc '01(78.3)	130[illegible]	–[illegible]	3.41	3.6[illegible]
127[illegible]	115[illegible]	Do. 2½pc '03(78.8)	126[illegible]	–[illegible]	3.49	3.7[illegible]
131[illegible]	117[illegible]	Do. 2pc '06(69.5)	130[illegible]	–[illegible]	3.53	3.7[illegible]
123[illegible]	110[illegible]	Do. 2½pc '09(78.8)	121[illegible]	–[illegible]	3.52	3.6[illegible]
128	114[illegible]	Do. 2½pc '11(74.6)	128[illegible]	+[illegible]	3.52	3.6[illegible]
106¼	95[illegible]	Do. 2½pc '13(89.2)	105[illegible]	+[illegible]	3.49	3.6[illegible]
115[illegible]	101[illegible]	Do. 2½pc '16(81.6)	113[illegible]	+[illegible]	3.44	3.6[illegible]
112[illegible]	100[illegible]	Do. 2½pc '20(83.0)	111[illegible]	+[illegible]	3.42	3.5[illegible]
95[illegible]	84[illegible]	Do. 2½pc '24‡‡(97.7)	94[illegible]	+[illegible]	3.37	3.4[illegible]

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

UNIT TRUST NOTES

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LONDON SHARE SERVICE

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AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
13⅛	847p	Hasbro Inc 50c	12½	–⅛	[illegible]	–	0.8
57½	32¾	Honeywell $1½	51⅝	+⅜	$2.[illegible]	–	3.4
22⅝	15⅛	Houston Inds.	21⅛	–⅛	$2.[illegible]	–	8.6
76⅞	60⅛	IBM Corpn $1¼	60⅛	–1⅛	$4.[illegible]	–	5.1
60p	45p	Image Storage/R.Sys.1c	50p	.....	–	–	–
32⅛	10¾	Ingersoll-Rand $2	29	.....	$1.[illegible]	–	2.6
33¾	22½	Lockheed Crpn. $1	24½	–⅛	$1.[illegible]	–	4.6
22⅝	11⅜	Lone Star Inds $1	11⅞	+⅛	$1.[illegible]	–	10.5
27⅞	17½	Louisiana Land 15c	26⅝	–⅝	$1.[illegible]	–	2.4
20½	11½	Lowe's 50c	19½	–⅛	[illegible]	–	1.6
28⅝	15⅞	Manuf. Hanover $1	20[illegible]	–[illegible]	$3.[illegible]	–	9.9
22⅝	11⅞	Merrill Lynch $1	16	–⅜	$1.00	–	4.0
24¾	19⅛	Molex Inc.	22⅞	–½	3.2c	–	–
30⅜	18⅜	Morgan (JP) $2½	26[illegible]	–⅛	$1.66	–	4.0
28[illegible]	24⅝	Morris (Philip)	26½	–⅜	$1.13	–	2.7
54⅛	36⅛	NYNEX $1	53⅜	.....	$4.36	–	5.2
44p	16p	N'wide Legal Serv.	20p	.....	–	–	–
24⅞	18¼	PHH Corp.	22¾	+⅝	$1.16	–	3.2
259p	167p	♦Pacific Agr.	179p	.....	–	–	–
28½	19	Pacificorp $3¼	27⅜	–⅛	$2.76	–	6.0
30⅜	16⅞	Pacific Telesis 10c	30⅝	–⅛	$1.88	–	3.9
22⅞	13¼	Pall Corp. 25c	20⅝	–⅛	48c	–	1.5
55⅝	39⅞	Pennzoil 83 1/3c	54⅝	–⅜	$3.00	–	3.5
42¼	28⅜	Quaker Oats $5	37⅞	+⅜	$1.40	–	2.4
32⅜	23⅝	Rep NY Corpn $5	30⅛	.....	$1.28	–	2.7
16⅞	11⅞	Rockwell Intl. $1	13⅝	–⅛	78c	–	3.8
29½	22	Sears, Roebuck 75c	23⅝	–⅛	$2.00	–	5.3
37½	21⅝	Southwestern Bell $1	35½	–⅜	$2.60	–	4.6
27⅞	17⅞	Sun Co. Inc. $1	26⅞	+⅜	$1.80	–	4.3
31¼	22⅞	TRW Inc. 62½c	30[illegible]	–⅜	$1.72	–	3.5
24⅞	14⅝	TW Services $5	21⅝	–⅛	–	–	–
40⅞	26⅝	Tenneco $5	38⅞	–⅛	$3.04	–	5.0
35[illegible]	28	Texaco $6.25	34⅝	–⅛	$3.00	–	5.4
28[illegible]	18⅞	Texas Instr. $1	22[illegible]	–[illegible]	72c	–	2.0
117[illegible]	58⅝	Time Inc. $1	82⅛	–[illegible]	$1.00	–	0.8
19⅝	13⅞	TRINOVA Corp.	11⅝	–⅜	68c	–	3.2
26⅛	16	USX $1	22⅝	–⅛	$1.40	–	4.0
321p	126p	♦Unilab	300p	.....	–	–	–
36⅝	22⅝	Utd. Technologies	33⅜	+1	$1.60	–	3.0
168p	121p	♦Utilitech Inc.	168p	.....	–	–	–
48⅛	31½	US West	45½	–⅝	$3.76	–	5.2
21⅝	11⅞	Waste Management $1	21⅛	–⅛	30c	–	0.9
20½	11½	Whirlpool $1	17⅜	–⅝	$1.10	–	3.9
24⅛	16⅞	Whitman Corp.	17[illegible]	+⅛	$1.02	–	3.6
46⅝	28⅛	♦Woolworth $3½	38⅛	–⅛	$1.88	–	3.1

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES—Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

1989 High	Low	Stock	Price	+ or -	Div Net	Cvr	Yld Gr's	P/E
[illegible]								
160	95	Seacon Hldgs	127		12.5	6.1	2.6	7.9
51	40	Semperiora	44					9.7
39	20	Sleepy Kids 5p	25					
*17½	5½	Stats Hldgs 5p	6½					13.0
*3¼	1¼	Swanyard Studios 1p	1½					7.2
11	2½	Syscon Detection 2½p	2½					3.3
50	28	Tavern Leis. 20p	38					
115	28	Tomorrows Leisure 20p	84	+2				32.0
113	56	UPL Group 10p	55		2.75	1.9	6.7	10.4
150	129	Unit Group	129xd		5.0	3.3	5.2	7.3
100	66	Video Magic Leis. 1p	84		W2.0	0.7	3.2	47.5
14	4½	Vista Ents 5p	4½					
40	20	Vizcaya Hldgs 5p	26					
46½	23	Whitegate Leisure 20p	39	+½				
32½	10	Do. Wrrnts	25					
10½	4½	Wilton Group 1p	5½					

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or -
Albany Inv 20p	88	
Craig & Rose £1	630	
Finlay Pkg. 5p	65	
Holt (Jos) 25p	1340	+2

IRISH

Stock	Price	+ or -
Cap. 8½% Ln. 1991	£96¾	
9pc Cap Ln. 1996	£95¾	-½
Fin. 13% 97/02	£115	
Arnotts	400	
Carrol (P.J.)	150	-2
Hall (R. & H.)	195	
Helton Hldgs	92	
IRG	230	+5
United Drug	140	

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	42
Amstrad	6½
Astec (BSR)	5½
BAT	67
BOC Grp	44
BTR	37
Barclays	40
Blue Circle	28
Boots	29
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	39
GKN	33
Hanson	18
Hawker Sidd	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	31
Lucas Inds	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	29
P & O Dfd	51
Polly Peck	38
Racal Elect	20
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	25
Sears	9
SmKl. Beecham A	48
TI	30
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Stock	p
Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Stock	p
Brit Petroleum	29
Burmah Oil	65
Charterhall	2½
Conroy Petm	9
Premier	10½
Shell	37
Tuskar Res	12
Ultramar	28½

Mines

Stock	p
Lonrho	23
RTZ	45

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

D-mark leads the way

The D-Mark surged yesterday to its highest level against the US dollar for over a year on talk that inflationary pressures will eventually force the Bundesbank to raise West German interest rates. The D-Mark's strength kept most other currencies on the defensive and also prompted speculation that a realignment of the European Monetary System could take place early next year.

The D-Mark's strength took dealers by surprise, many of whom had expected it to pause for breath after its recent advance. They said there had been no major piece of news to pushed the D-Mark higher. Instead, strong buying at a normally quiet time of year had allowed the D-Mark to sail through chart resistance levels.

Mr Jonathan Hoffman, European Economist at Credit Suisse First Boston, said that the political upheavals in Eastern Europe and the strength of the West German economy meant that interest rates would remain high, thereby attracting speculative flows into the D-Mark. Currency dealers noted that the D-Mark's strength had increased the pressure for an EMS realignment in the first quarter of next year, though some analysts said it may come later on, particularly if sterling looks likely to join the Exchange Rate Mechanism in 1990.

The D-Mark was given a further boost against the dollar after the US Federal Reserve refrained from open market operations. This left US money market rates easier, with Federal Funds trading at 8½ per cent at the usual time of Fed operations, from 8¾ on Monday. The Fed's absence pushed the dollar to a low of DM1.7300, but then it bounced off support at that level. The dollar closed at DM1.7345, its lowest since December 9, 1988, and compared with DM1.7660 on Monday. The D-Mark also finished at Y83.02 from Y81.73, and at SFr0.9085 from SFr0.9040.

Dealers said the currency markets could continue to see sharp movements over the quiet period before the end of the year. Indeed, the dollar is likely to be thinly traded until the release on Friday of US trade and producer prices data. It closed at closed at Y143.85 from Y144.45, at SFr1.5770 from SFr1.5970, and at FFr5.5300 from FFr6.0375. The dollar's index, as calculated by the Bank of England, closed at 68.3 from 68.7.

The D-Mark's strength prevented sterling from holding all of its early gains, which had been prompted by end-of-year corporate buying and by comments by Mr John Major, the UK Chancellor, who had reaffirmed the government's commitment to high interest rates. Analysts said sterling would remain quiet until the release of UK inflation data on Friday. Sterling closed at DM2.7800 from DM2.8075 on Monday, at $1.6035 from $1.5895, at SFr2.5300 from SFr2.5875, at Y230.75 from Y229.50, and at FFr9.5100 from FFr9.5950. Sterling's index closed at 87.1, up 0.1.

£ IN NEW YORK

Dec.12	Latest	Previous Close
$ Spot	1.6015-1.6025	1.5935-1.5945
1 month	0.84-0.83pm	0.91-0.90pm
3 months	2.39-2.36pm	2.46-2.43pm
12 months	8.38-8.28pm	8.78-8.68pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.12	Previous
8.30 am	87.2	86.7
9.00 am	87.2	86.7
10.00 am	87.4	86.7
11.00 am	87.4	86.8
Noon	87.4	86.8
1.00 pm	87.3	86.8
2.00 pm	87.1	86.9
3.00 pm	87.2	87.0
4.00 pm	87.1	87.0

CURRENCY RATES

Dec.12	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.22605	1.37895
U.S Dollar	7	1.29130	1.16245
Canadian $	12.46	1.50230	1.35344
Austrian Sch.	6½	16.0909	14.3202
Belgian Franc	10¼	47.9912	42.7870
Danish Krone	10½	8.86607	7.89654
Deutsche Mark	6.00	2.28418	2.03487
Neth. Guilder	7.00	2.57808	2.29701
French Franc	10¼	7.80655	6.95786
Italian Lira	13½	1685.89	1504.91
Japanese Yen	3¼	166.851	147.684
[illegible]	[illegible]	[illegible]	[illegible]

Sterling quoted in terms of SDR and ECU per £. † European Commission Calculations. * All SDR rates are for Dec.11

CURRENCY MOVEMENTS

Dec.12	Bank of England Index	Morgan* Guaranty Changes %
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100).

OTHER CURRENCIES

Dec.12	£	$
[illegible]	[illegible]	[illegible]
Kuwait	0.47090-0.47200	0.29600-0.29650
Luxembourg	58.70-58.80	36.55-36.65
Malaysia	4.3260-4.3370	2.7040-2.7060
Mexico	4251.95-4269.35	2655.00-2665.00
N. Zealand	2.6775-2.6835	1.6695-1.6725
Saudi Ar.	5.9665-5.9715	3.7500-3.7510
Singapore	3.0705-3.0775	1.9195-1.9215
S. Af (Cm)	4.1295-4.1400	2.5705-2.5735
S. Af (Fn)	6.2085-6.3305	3.8760-3.9525
Taiwan	41.95-42.05	26.20-26.25
U.A.E.	5.8435-5.8475	3.6720-3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

Dec 12	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14⅞-14⅝	15-14⅞	15-14⅞	15-14⅞	14⅞-14⅝	14⅞-14⅝
US Dollar	8½-8¼	8⅝-8½	8⅝-8½	8½-8⅜	8⅜-8¼	8⅜-8¼
Can. Dollar	12¼-12	12¼-12	12⅛-11⅞	12⅛-11⅞	11⅞-11⅝	11⅝-11⅜
D. Guilder	8½-8¼	8½-8¼	8½-8⅜	8⅝-8½	8⅝-8½	8⅝-8½
Sw. Franc	7¾-7½	7⅞-7¾	8⅛-8	8¼-8⅛	8¼-8	8¼-8
Deutschmark	7⅝-7½	7⅞-7¾	8-7⅞	8¼-8⅛	8⅜-8¼	8½-8¼
Fr. Franc	10¼-10⅛	10⅜-10¼	10½-10⅜	10⅝-10½	10⅝-10½	10⅝-10½
Italian Lira	12-10	13-12	13¼-12¾	13¼-12¾	13-12⅝	13¼-12¾
B. Fr. (Fin)	9⅝-9½	9⅞-9⅝	9⅞-9¾	10-9⅞	9⅞-9⅞	9⅞-9⅞
B. Fr. (Con)	9¼-9	9¾-9½	9¾-9½	10-9¾	10-9¾	10-9¾
Yen	6¼-6⅛	6⅜-6¼	6½-6⅜	6⅝-6½	6⅝-6½	6½-6⅜
D.Krone	12¼-12⅛	12½-12¼	12⅛-11⅞	12-11⅞	11⅞-11⅝	12⅛-11⅞
Asian $Sing	8⅝-8½	8⅝-8½	8⅝-8½	8½-8⅜	8½-8⅜	8⅜-8¼

Long term Eurodollars: two years 8⅞-8⅝ per cent; three years 8½-8¼ per cent; four years 8⅝-8⅜ per cent; five years 8¾-8½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

Dec.12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5910-1.6045	1.6030-1.6040	0.89-0.87cpm	6.59	2.43-2.40pm	6.02
Canada	1.8570-1.8705	1.8655-1.8665	0.50-0.40cpm	2.89	1.25-1.10pm	2.52
Netherlands	3.13½-3.17¼	3.13½-3.14½	1⅞-1⅝cpm	6.93	4⅞-4⅝pm	6.05
Belgium	58.50-59.15	58.70-58.80	30-25cpm	5.62	74-66pm	4.77
Denmark	10.79¼-10.91½	10.79¾-10.80¾	3-2¼orepm	2.85	7⅞-6⅞pm	2.68
Ireland	1.0550-1.0665	1.0550-1.0560	0.30-0.25cpm	3.13	0.80-0.75pm	2.94
W. Germany	2.77¼-2.81	2.77¾-2.78¾	1⅞-1⅝pfpm	7.28	4⅞-4⅝pm	6.36
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Belgian rate is for convertible francs. Financial franc 58.85-58.95 Six-month forward dollar 4.88-4.73cpm 12 month 8.70-8.60cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5910-1.6045	1.6030-1.6040	0.89-0.87cpm	6.59	2.43-2.40pm	6.02
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.12	% change from central rate	% change adjusted for divergence	Divergence limit %
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Dec.12	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

CHICAGO

[illegible]

LONDON (LIFFE)

[illegible]

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Dec	2365.5	2383.0	2365.0	2361.0
Mar	2415.0	2429.0	2414.0	2410.0
Jun	2455.0			2450.0

Estimated volume 4829 (5956)
Previous day's open int. 32062 (32160)

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 57,085
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

Rates steady

UK money market rates were little changed yesterday in *quiet trading as sterling held* firm after comments by Mr John Major, the Chancellor. The key three-months interbank rate was at 15⅛-15 per cent, unchanged from Monday, while March short sterling *closed just 2 basis points lower* at 85.79.

Initially, the Bank of England forecast a money market shortage of around £2bn and invited an early round of bill offers, at which it purchased £506m of bills. This included £1m band 1 bank bills at 14⅞ per cent, while in band 2 at 14¾ per cent it purchased £72m Treasury bills and £112m bank bills. It also bought £321m of bills for resale to the market in equal amounts on December 27, 28 and 29 at 14⅞-14⅞ per cent. The shortage was revised to £2.1bn before taking account of early *operations* and later in the morning the Bank purchased £772m bills. In band 2 at 14¾ per cent it purchased £9m Treasury bills and £268m bank bills. It also bought £495m for resale to the market in equal amounts on December 27, 28 and 29 at 14⅞-14⅞ per cent.

UK clearing bank base lending rate 15 per cent from October 5

During the afternoon, it bought £32m, of which £18m *were band 1 bank bills at 14⅞* per cent, and £14m were band 2 Treasury bills at 14¾ per cent. Finally, late assistance of £225m was provided.

The Bank's forecast shortage included an allowance for water privatisation receipts. Among factors draining liquidity from the system were maturing assistance and a take-up of Treasury bills of £62m, Exchequer transactions of £1.97bn, and a rise in the note circulation of £62m. This was offset slightly by bank balances above target, which were estimated to add £90m.

In Frankfurt, call money rates were barely changed at 7.65-7.70 per cent in quiet pre-holiday trading. The Bundesbank set two new securities repurchase pacts, offering 35-day funds at a fixed rate of 7.30 per cent and 63-day funds at variable rates.

Dealers said they expected the Bundesbank to allocate enough liquidity to cover the expiring DM20.6bn facility, which should allow call money rates to remain in a band of 7.50-7.80 per cent until the yearend. They added that the *money markets had sufficient* liquidity to cope with the drain caused by December tax payments and the increased demand for cash before Christmas.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

NEW YORK — Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

BASE LENDING RATES

	%
ABN Bank	15
Adam & Company	15
Allied Trust Bank	15
Allied Irish Bank	15
● Henry Ansbacher	15
Associates Cap Corp	14
Authority Bank	15
● B & C Merchant Bank	15
Bank of Baroda	15
Banco Bilbao Vizcaya	15
Bank Hapoalim	15
Bank Credit & Comm	15
Bank of Cyprus	15
Bank of Ireland	15
Bank of India	15
Bank of Scotland	15
Banque Belge Ltd	15
Barclays Bank	15
Benchmark Bank PLC	15
Brit Bk of Mid East	15
● Brown Shipley	15
CL Bank Nederland	15
● Charterhouse Bank	15
Citibank NA	15
City Merchants Bank	15
Clydesdale Bank	15
Comm. Bk N. East	15
Co-operative Bank	*15
Coutts & Co	15
Cyprus Popular Bk	15
Dunbar Bank PLC	15
Duncan Lawrie	15
Equatorial Bank plc	15
Exeter Trust Ltd	15½
Financial & Gen. Bank	15
First National Bank Plc	16
● Robert Fleming & Co.	15
Robert Fraser & Ptrs.	15½
Girobank	15
● Guinness Mahon	15
HFC Bank plc	15
● Hambros Bank	15
Hampshire Trust Plc	15½
Heritable & Gen Inv Bk	15
● Hill Samuel	§15
C. Hoare & Co.	15
Hongkong & Shangh	15
● Leopold Joseph & Sons	15
Lloyds Bank	15
Meghraj Bank Ltd	15
McDonnell Douglas Bnk	15
Midland Bank	15
Mount Banking	15
Nat Bk. of Kuwait	15
NatWestminster	15
Northern Bank Ltd	15
Norwich Gen. Trust	15
Nykredit Mortgage Bank	15½
PRIVATbanken Limited	15
Provincial Bank PLC	16
Roxburghe G'rantee	15½
Royal Bk of Scotland	15
Royal Trust Bank	15
● Smith & Williamson Secs.	15
Standard Chartered	15
TSB	15
United Bk of Kuwait	15
United Mizrahi Bank	15
Unity Trust Bank Plc	15
Western Trust	15
Westpac Bank Corp.	15
Whiteaway Laidlaw	15
Yorkshire Bank	15

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JOTTER PAD

CROSSWORD

No.7,114 Set by CINEPHILE

ACROSS

1 Hob's changed and put in liquid for a bit of chicken (8)
5 Caper that sounds speculative (6)
9 Reputation remains in beast (English) (8)
10 I leave island, 'aving indistinct following, with a bad reputation (6)
11 Supply worker behind schedule: that's the pattern (8)
12, 14 Black educationalist gives literary prize to president (6,10)
14, 20 Writer with capital actor (10,6)
18 End of waterway in Rhode Island with it.... (5,5)
22 ..... or the window that's a door (6)
23 It's the shape of a foot: see other version (4,4)
24 Burrow with snout to back, in part (6)
25 Avoid request to pay for platypus (8)
26 First fared badly, being frightened (6)
27 Write label attached to military leadership (8)

DOWN

1 American deer in a hole in West Indies (6)
2 My seat may be hot (6)
3 Second old prime minister's unfinished fight (6)
4 Person at table eating root, possibly (10)
6 Without extras, and nothing lost? (3,5)
7 Speculations about torture in which numbers of letters are (6)
8 Means of propagation by amateur note about Ireland (8)
13 After a little bit he goes up river for presidency (5,5)
15 Requiring set procedure for don or graduate (3,5)
16 A 5 that is increased in Scots resort (8)
17 Like a prophet or a copper, home protector (8)
19 FT parody of informal garment (6)
20, 21 Actor with capital composer (6,6)

Solution to Puzzle No.7,113

WORLD STOCK MARKETS

AUSTRIA — December 12 — Sch. — + or − [illegible]

BELGIUM/LUXEMBOURG — December 12 — Frs. — + or − [illegible]

DENMARK — December 12 — Kr — + or − [illegible]

FINLAND — December 12 — Mks — + or − [illegible]

FRANCE — December 12 — Frs. — + or − [illegible]

FRANCE (continued) — December 12 — Frs. — + or − [illegible]

GERMANY — December 12 — Dm. — + or − [illegible]

GERMANY (continued) — December 12 — Dm. — + or − [illegible]

ITALY — December 12 — Lire — + or − [illegible]

ITALY (continued) — December 12 — Lire — + or − [illegible]

NETHERLANDS — December 12 — Fls. — + or − [illegible]

NORWAY — December 12 — Kroner — + or − [illegible]

SPAIN — December 12 — Pts.% — + or − [illegible]

SWEDEN — December 12 — Kronor — + or − [illegible]

SWITZERLAND — December 12 — Frs. — + or − [illegible]

SOUTH AFRICA — December 12 — Rand — + or − [illegible]

JAPAN — December 12 — Yen — + or − [illegible]

AUSTRALIA — December 12 — Aust.$ — + or − [illegible]

AUSTRALIA (continued) — December 12 — Aust.$ — + or − [illegible]

HONG KONG — December 12 — H.K.$ — + or − [illegible]

SINGAPORE — December 12 — S$ — + or − [illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

2pm prices December 12

Sales — Stock — High — Low — Close — Chng [illegible]

1 – No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Dec 11	Dec 8	Dec 7	Dec 6	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials #	2728.24	2731.44	2720.78	2736.77	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.47	93.41	93.44	93.64	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1201.10	1209.46	1211.06	1213.73	1532.01 (5/9)	999.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	228.83	228.73	227.55	227.68	228.81 (11/12)	181.84 (24/2)	228.81 (11/12/89)	10.50 (8/4/32)

♦Day's High 2742.75 (2750.85) Low 2705.63 (2716.51)

STANDARD AND POOR'S	Dec 11	Dec 8	Dec 7	Dec 6	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	348.56	348.69	347.59	348.55	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	398.91	399.22	397.90	398.71	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	31.57	31.64	31.66	31.90	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	192.83	192.92	192.38	192.82	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	375.04	375.45	375.09	375.83	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	452.42	456.24	457.20	456.67	485.75 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Dec 8	Dec 1	Nov 24	year ago (approx.)
Dow Industrial Div. Yield	3.90	3.87	3.97	3.71

	Dec 8	Nov 29	Nov 22	year ago (approx.)
S & P Industrial div. yield	2.92	2.96	2.98	3.15
S & P Indl. P/E ratio	14.82	14.59	14.51	12.86

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Fannie Mae	2,971,400	35¼	+ ⅛
Fed Home (xd)	2,184,300	70¼	− 1⅞
Pinnacle W Cap	1,905,400	10⅞	− ⅛
Compaq Comp	1,749,100	81⅝	− 4¼
IBM	1,736,800	96¼	− ⅛
Chase Manhattan	1,690,200	34¾	− ½
Gt West Fin	1,444,700	17½	− ⅛
Global Marine	1,434,200	3½	− ⅛
Philip Morris(xd)	1,404,800	42⅝	+ ⅛
Pfizer	1,335,600	67⅝	− 1⅛

TRADING ACTIVITY

† Volume Millions	Dec 11	Dec 8	Dec 7
New York	147.130	144.918	161.980
Amex	11.663	12.763	13.454
NASDAQ	133.385	128.145	143.977
Issues Traded	1,977	1,962	1,976
Rises	662	804	611
Falls	833	645	838
Unchanged	482	513	527
New Highs	57	60	61
New Lows	55	26	36

CANADA

TORONTO	Dec 11	Dec 8	Dec 7	Dec 6	1989 HIGH	1989 LOW
Metals & Minerals	3293.63	3314.66	3325.62	3344.30	3919.2 (1/9)	3207.5 (3/1)
Composite	3989.38	3982.73	3969.45	3951.66	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2022.73	2021.04	2019.01	2015.30	2069.68(10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. # Corrected fig. for Dec. 8.

	Dec. 12	Dec. 11	Dec. 8	Dec 7	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1612.7	1615.8	1626.1	1634.5	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	806.8	801.8	803.4	804.2	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	462.89	459.09	(c)	452.51	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6466.51	6507.61	6547.91	6587.42	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	354.95	356.75	356.26	359.39	360.93 (6/12)	275.49 (27/2)
FINLAND						
Unitas General (1975)	617.1	615.2	613.7	621.3	815.8 (18/4)	580.8 (23/11)
FRANCE						
CAC General (31/12/82)	549.4	551.3	547.6	547.8	561.0 (11/10)	417.9 (4/1)
Ind. Tendance(30/12/88)	127.8	127.1	126.6	126.3	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	693.14	693.97	691.26	700.14	700.14 (7/12)	535.78 (27/2)
Commerzbank (1/12/53)	2046.8	2047.6	2045.3	2068.9	2068.9 (7/12)	1595.7 (27/2)
DAX (30/12/87)	1653.07	1653.70	1650.79	1664.08	1664.08 (7/12)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2809.58	2763.33	2754.11	2770.80	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1732.71	1727.77	1717.20	1723.46	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	663.97	664.52	(c)	669.22	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	37803.53	37752.67	37724.06	37858.11	37858.11 (7/12)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2868.02	2873.66	2871.93	2879.02	2879.02 (7/12)	2366.91 (6/1)
2nd Section (4/1/68)	3803.87	3794.59	3779.96	3767.02	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Tl.Rtn.Gen.(End 1983)	262.3	263.7	263.8	263.2	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	201.2	202.3	202.5	202.0	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	658.56	659.79	654.54	643.30	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1162.21	1211.82	(c)	(c)	1396.26 (20/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1454.81	1448.54	1444.96	1445.54	1454.81 (12/12)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2253.04	2206.0	2162.0	2168.0	2253.0 (12/12)	1291.0 (15/2)
JSE Industrial (28/9/78)	2809.04	2776.8	2750.0	2725.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	879.46	844.75	864.50	874.94	1007.80 (3/4)	844.75 (11/12)
SPAIN						
Madrid SE (30/12/85)	303.35	303.85	(c)	304.56	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4110.8	4072.9	4070.3	4007.4	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	765.3	770.6	770.9	772.6	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	8339.40	8176.08	8513.80	8123.50	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	822.07	(c)	793.88	783.80	822.07 (12/12)	386.75 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	556.4	556.6	556.7	557.7 (7/12)	487.6 (13/6)

**Saturday Dec. 9: Taiwan Weighted Price: 8408.17 Korea Comp Ex. 850.02.
‡ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed, (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday December 12 1989

	Stocks Traded	Closing Prices	Change on day
Nippon Oil	24.2m	1,890	+10
Sumitomo M Ind .	16.9m	900	-16
Sumitomo M Mg .	16.2m	2,350	8
Mitsubishi	16.1m	1,870	+40
Kobe Steel	14.9m	843	-20
Nippon Mng	14.3m	1,020	0
Mitsui Mg&S	11.6m	979	+21
Sumitomo	11.3m	1,090	+10
Marubeni	11.1m	1,020	-20
Sharp	10.8m	1,680	+20

3pm prices December 12

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	23	AAR	.48	1.4	22	93	35⅛	30⅛	35⅜	– ⅛
9⅝	8⅝	ACM G	1.01	11.		258	9⅜	9⅛	9⅛	
11⅝	10⅛	ACMIn	1.26	11.		422	11⅝	11⅛	11⅜	– ⅛
16	8	ACM M	n1.01	11.		317	9	8⅞	9	+ ⅛
11½	12	ACM Sc	1.26	11.		657	11⅜	11	11⅛	
9⅛	8⅞	ACMSp	1.01	11.		609	9⅛	9⅛	9⅛	
18	11½	AL Lab	.12	.7	18	44	17⅛	16⅞	17	
4⅛	3⅛	AMCA	.12e	0.4	22	73	3½	6⅞	5½	+ ⅛
6⅞	4⅛	AM Int			9	496	4⅛	4½	4½	
23½	16½	AM In pf	5	11.		19	18⅛	12½	18½	– ⅛
107⅛	61½	AMR			8	2573	64⅞	63⅛	64½	+ 1⅛
26⅜	23⅛	ANR pf	2.12	8.8		16	24⅛	24⅛	24⅛	+ ⅛
6½	3⅞	ARX				113	3⅛	3½	3⅛	
30⅛	37⅞	ASA	3a	5.1		1093	50⅛	37⅞	55½	
30⅞	16⅛	AVX	.24	.8	20	626	29⅛	28⅝	29⅝	– ⅛
79⅝	43⅛	AbtLab	1.40	2.2	17	10211	65½	64⅞	64½	– ½
18⅛	15⅛	AbtIBl g	1			78	12⅝	12⅝	12⅝	
13	7⅞	AcmeC	.40	6.0	14	325	19⅛	19½	18⅝	
9⅛	8	AcmeE	.32	3.8	11	11	8⅝	8½	8⅛	
36½	22	Acuson			20	1727	31⅛	30⅞	30⅞	+ ½
16⅛	12⅞	AdaEx	2.06e	13.		123	15½	15⅜	15⅜	
12⅜	6½	Adobe				364	12½	12⅜	12½	+ ⅛
19⅝	10½	Adob pf	1.84	9.9		12	18⅜	18½	19⅝	+ ⅛

Continued on Page 37

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
39½	31½	Questar	1.92	4.9	26	92	39	38¾	38¾	- ⅛
18¼	10¼	QkReily	.24	1.7	12	29	14½	14	14⅛	- ⅛
		- R - R - R -								
15	9⅝	RAC In	n1.20	11.		z199	10⅝	10½	10½	+ ⅛
2¾	1⅞	RAC	.80e	27.		789	2¾	2⅝	2⅝	+ ⅛
10½	7¾	RLC	.20b	2.3	10	111	8¾	8¾	8¾	
9½	6⅞	RLI Cp	.40	4.5	8	8	9	8⅞	8⅞	
[illegible]										

Sales figures are unofficial. [illegible]

NASDAQ NATIONAL MARKET

3pm prices December 12

[illegible]

AMEX COMPOSITE PRICES

3pm prices December 12

[illegible]

FINANCIAL TIMES Wednesday December 13 1989

AMERICA

Dow edges higher despite selective selling

Wall Street

IN SPITE of continued selling pressure in technology stocks, the Dow Jones Industrial Average managed a modest gain at midsession yesterday, *writes Janet Bush in New York.*

At 2 pm, the Dow was quoted 4.27 points higher at 2,732.51 on moderate volume of 95m shares at midsession. The Dow closed 3.20 points lower at 2,728.24 on Monday.

Among other indices, the broad-based Standard & Poor's 500 and American Stock Exchange indices were marginally higher at midsession while the Nasdaq Composite, which includes a number of technology issues, was quoted lower.

Outside specific sectors, trading was somewhat dull. There is a clutch of important economic indices to be announced on Friday and dealers have been holding back for these.

US Treasury bonds have been stuck in an exceedingly narrow range so far this week, with yields hardly moving from Friday's closing levels. In spite of what was generally regarded as a weak employment release for October and November last Friday, there has been no hint that the US Federal Reserve has initiated an easing in monetary policy.

Although Fed Funds have slipped somewhat to around 8⅜ per cent from the 8½ per cent believed still to be the Fed's target, there has been no clear signal from the Fed that this is the result of a policy move. Given the enormous confusion late last month surrounding some apparently contradictory Fed operations in the money market, it seems likely that the Fed will this time want to make its intentions clear.

The selling of technology issues was most pronounced yesterday among those companies with major personal computer businesses. While International Business Machines clawed back ground, quoted up $⅜ at $96½ at midsession, other stocks remained weak.

Apple Computer, traded on the Nasdaq electronic over-the-counter market, fell another $3½ to $35¾ as the company forecast that net income for the quarter ending December would be below the level achieved a year ago and that sales for the period would fall short of expectations.

On the New York Stock Exchange, Compaq Computer fell $1¼ to $80⅝.

Semiconductor stocks were generally lower after the publication of an industry group's monthly report which said that chip sales were stagnant in November. Texas Instruments fell $⅛ to $36⅛ and Intel slipped $⅛ to $32.

Oil stocks, which rallied on Monday despite the dullness of the rest of the market, and counterbalanced the weakness in technology issues, continued to rise yesterday. Exxon added $⅛ to $50⅝, Phillips Petroleum jumped $1¼ to $25⅝ and Mobil edged $⅛ higher to $61⅞.

Among featured individual stocks was Pitney Bowes which slumped $3 to $48. The company announced plans to take a fourth quarter charge of about $120m and to reduce its workforce by around 1,500.

Land's End, which dropped $4⅝ on Monday, lost another $2⅞ to $20⅞ at midsession yesterday. The company said that its profit for the year ending January was expected to be 13 per cent lower than a year earlier.

Canada

CONCERN over high interest rates and the strength of the Canadian dollar kept buyers away from the Toronto bourse.

The composite index fell back 2.1 to 3,987.2 on volume of 21.2m at midsession. Advances trailed declines 219 to 271.

Campeau rose C$⅜ to C$5½ prior to the company's third quarter results due to be announced later in the day.

Inter-City Gas gained C$⅛ to C$23⅞ following the sale of its propane business to Westcoast energy for C$720m.

Financial package sparks record rise in South Korea

By Maggie Ford in Seoul

A PACKAGE of financial measures, including $140m worth of opportunities for foreign investors, triggered a record single-day rise in the flagging South Korean stock market yesterday.

The composite index surged to 879.46, a gain of 34.71 points or 4 per cent. The previous record rise in points terms was on November 9, when the index climbed 34.33 amid rumours that the Government would intervene.

Yesterday's measures followed protests on Monday by investors who occupied brokerage firms demanding action from the Government after the index sank to a year's low of 844.75.

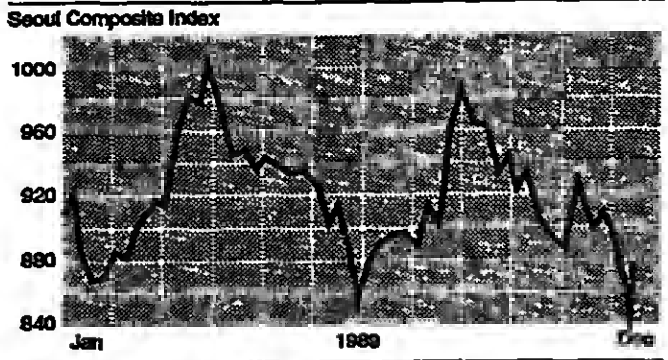
Mr Lee Kyu Sung, the Finance Minister, announced that the capital of the Korea Euro Fund would be increased by $50m to $110m and that three new investment trusts would be set up at $30m each.

At present, foreigners can only buy Korean shares through two overseas funds, several unit trusts and a number of convertible Eurobonds. The stock market is not scheduled to be opened to foreign investment until 1992, and both bonds and funds trade at premiums of more than 100 per cent due to the scarcity of Korean paper.

The Government has now formally approved the issue of a $50m Eurobond by Dong Ah Construction, the company which recently won a $5bn water pipeline project in Libya, and Finance Ministry officials confirmed yesterday that more such instruments were likely to be approved in the next few months.

S Korea

Seoul Composite Index



Companies will be allowed to launch rights issues at a 30 per cent discount to the market price, up from 10 per cent, which will make the issues more attractive to investors. A ban has been lifted on bank loans to institutions for share purchases.

The package also included a lifting of liquidity restrictions, which have encouraged the market to drift. Bears have dominated the scene in Seoul for the past eight months, with investor confidence sapped by worries about labour disputes and about slow economic growth next year.

Share prices soared from the start of trading yesterday and the composite index had risen 30.52 points within the first hour.

Volume fell to 106.4bn won from 167.3bn on Monday, but this was attributed to a reluctance to sell.

Gains far outnumbered declines by 1,012 to 9, while only 2 shares closed unchanged.

SOUTH AFRICA

BULLISH sentiment continued unabated on the Johannesburg exchange as investors reacted to the sharp rise in bullion prices.

The JSE all-gold index closed up 47 at a preliminary 2,253 in busy trading. Gold and blue chip stocks were in particular demand.

Vaal Reefs gained R14 to R443, and Freegold R3 to R56.

EUROPE

Excitement returns with mixed effect on bourses

AFTER Monday's continental lull, bourses saw much more excitement yesterday, with mixed effects on sentiment, volume and share prices, *writes Our Markets Staff.*

FRANKFURT reflected this theme, as minimal changes in its key indices – declines of 0.83 to 693.14, and 0.65 to 1,653.07 in the FAZ and the DAX respectively – masked significant price changes in blue chips, and in secondary issues.

Deutsche Bank rose DM11 to DM777.50 in volume of DM712m, the second highest of the day, ahead of today's results. Thyssen topped the most-actives list in DM11m, partly on bullishness before results due this week, and partly on hopes that its magnetic levitation train will be given a trial commercial line from Cologne to Bonn.

All told, volume rose from DM5.8bn to DM7.2bn, but there was a lot of space between Thyssen at the top of the list, and Volkswagen, one of last week's favourites, 10th yesterday at DM117m. VW eased DM1.80 to DM512.70.

The profit-taking which trimmed VW also affected Dresdner Bank, down DM4.80 at DM393.70 after a DM8 rise on its results on Monday, and Preussag, DM5.50 lower at DM394.50 after a 20 per cent rise since the beginning of November; Preussag's takeover of Salzgitter, the state-owned steel and engineering group, puts it high on the list of potential beneficiaries from the East/West rapprochement.

PARIS ended little changed after a late recovery from earlier falls. But absence of overall movement concealed a few sharp gains in individual stocks, among them such blue chips as Paribas and speculative perennials like Perrier.

The OMF 50 index closed at 540.52, up 1.96, but the real time CAC 40 index finished up just 0.22 at 1,972.01. Volume was estimated at FFr2.5bn-FFr3bn; on Monday it was some FFr3.5bn, of which about FFr1.5bn was put down to Suez buying out minority shareholdings in Groupe Victoire.

Paribas, the banking group which is bidding for Navigation Mixte, attracted some late demand from foreign investors after a couple of days' pause, rising FFr13 to FFr690.

Matra, the defence electronics group, was up FFr19.90 at FFr415 after an international consortium led by British Aerospace and including Matra was awarded one of three UK licences for mobile communications systems on Monday.

The chemical group Rhône-Poulenc announced that it was increasing its international offering of shares and warrants by 15 per cent to meet strong demand. Its certificates reached FFr474.50 before closing FFr2.50 lower at FFr468.

Perrier gained FFr66 to FFr1,915 on renewed talk of a takeover or reshuffling of the main shareholdings, while Chargeurs, the transport group, rose FFr39 to FFr1,359 on speculative interest.

MILAN's mixture took in a virtually unchanged Comit index, 0.55 lower at 632.97, but some serious shifts in share prices, especially those involved, and recently suspended during, the ongoing De Benedetti/Berlusconi battle for control of the publishing group, Mondadori.

Savings shares of Amef, the holding company which controls 50.3 per cent of Mondadori, dropped L1,900 to L10,300, on a mixture of profit-taking and the suspicion that De Benedetti's plans to break that control with a Mondadori capital increase might just come to fruition.

However, Mondadori's ordinary rose L9,000 to L43,000; a continued battle for control could pay off for existing shareholders. Its preferred shares jumped L10,300 to L38,500 on the theory that they will be given the opportunity to convert into ordinary at the upcoming shareholders' meeting; and its saving shares, a small issue, gained L6,200 to L23,000 on the assumption that they will be drawn into this process.

AMSTERDAM lost ground in slow trading worth Fl 544m. The CBS tendency index was off 1.8 at 185.5, depressed by the weakness of the dollar, and there were sharp losses in individual stocks.

Pirelli Tyre Holding plunged Fl 5.60, or 13 per cent, to Fl 38.50 after saying that second half net profits would be in line with those in the first half, compared with market expectations of a 10 per cent increase.

Daf, the trucks maker, fell Fl 2.40 to Fl 43, making a two-day loss of 9 per cent, on reports that the company had lost market share in the UK this year.

MADRID weakened again, undermined by further falls in the banking sector and in tobacco and food group Tabacalera, off 15 points at 792 per cent of par after a 17-point fall the previous day.

The general index shed 0.50 to 303.35, but there were selective gains in the construction sector and in utilities, where Telefónica rose 4 to 914.

OSLO ended 11 consecutive rises when the all-share index slipped fractionally back in quiet trading, closing 0.21 down at 508.04. Saga accounted for around one-fifth of the day's NKr276m worth of trading on speculation about the company's prospects in controlling a problematic well in the North Sea. Saga closed 50 ore down at NKr58.

BRUSSELS fell back in moderate trading, the cash market index closing 42.53 down at 6,466.51. Buyers were reported to be unwilling to take new positions before the year-end.

COPENHAGEN failed to get excited by the news that Provinsbanken was to merge with Den Danske Bank and Copenhagen Handelsbank, which had previously announced their merger into the new Danske Bank. The bourse index closed 1.80 higher at 356.75.

EXCITEMENT in Stockholm surrounding the suspension of shares in Volvo, Pharmacia and Procordia helped push the Affärsvärlden General index up 9.4 to 1,206.3 in active trading in Stockholm.

Analysts speculated that Procordia would make an offer for Volvo's stake in Pharmacia, one of Sweden's leading pharmaceutical groups. Pharmacia has been the focus of buying attention.

The prospect of a deal also encouraged speculation that the way would be clear for an agreement between Volvo and French group Renault, or its domestic rival Saab.

ASIA PACIFIC

Modest advance in cautious trade

Tokyo

ACTIVITY was dominated by short-term considerations yesterday, as investors maintained their cautious stance, but shares were supported by selective buying and arbitrage trading, *writes Michiyo Nakamoto in Tokyo.*

Concern over high prices kept trading at a moderate level, with volume at 847m shares against Monday's 738m. After fluctuating throughout the day, the Nikkei average closed up 50.86 at 37,803.53, much of the gain coming from late, index-linked buying which pushed the Nikkei up about 120 points near the close.

Earlier the index had moved from a high of 37,899.95 to a low of 37,676.04. Declines led advances by 503 to 408 while 225 issues were unchanged. The Topix index of all listed stocks lost 5.64 to 2,868.02, but in London, the ISE/Nikkei 50 index edged up 0.96 to 2,162.52.

Although there is an underlying expectation of further rises, the speed of its advance of late put a slight damper on sentiment yesterday.

The so-called psychological line, which compares the number of gains and losses within the past 12 trading days, showed 10 gains against 2 losses, which was seen as a sign that the market was over-extended, said Mr Chuck Lambert at Jardine Fleming. Normally a ratio of 9 gains against 3 losses would trigger concern.

Profit-taking focused upon the big steel companies, which have seen a good rise during the market's upward run. Sumitomo Metal Industries, which had risen Y200 from its October low, fell Y16 to Y900. It was second on the volumes list with 16.9m shares. The yen's weakness against the dollar was another problem for heavily-capitalised stocks.

Resources took centre stage, on news of higher gold prices in New York and reports that the United Arab Emirates would cut oil production beginning next year. There was also talk about declining oil production in the Soviet Union.

Arabian Oil led the surge, attracting interest on the merits of its own oil sources. It gained Y490 to Y9,790. Nippon Oil, which also has some sources of its own, rose Y50 to a new high for the year of Y1,930 during the day; its last high for the year was 10 months ago. It topped the volumes list with 24.2m shares but lost some of its gains to close up Y10 at Y1,890.

Sumitomo Metal Mining, which has been most actively pursued on the strength of higher gold prices, met profit-taking, and was unchanged at Y2,350 after rising Y50 to Y2,400. It was third in volume with 15.2m shares. Sumitomo had been favoured for its strong gold business; it owns a mine which is one of the world's lowest-cost producers of gold, with a production cost of about $100 per ounce against the world average of $250.

Elsewhere, Aiwa saw an 18 per cent gain of Y400 to Y2,610 on its good business prospects under the beneficial influence of Sony, the electronics maker which owns over 52 per cent of the company.

Sharp reached a record high of Y1,700 on its strong business performance and relatively low price/earnings ratio. It closed up Y20 at Y1,680.

Issues with special features were in demand in Osaka, but the OSE average managed only a 9.47 point increase to 38,843.92. Volume fell further to 77.4m shares, down from 81.75m on Monday. Sharp added Y80 to Y1,630.

Roundup

SWINGS and roundabouts were the common denominator yesterday in the Pacific Basin where, for the most part, pre-holiday lethargy was conspicuous by its absence.

HONG KONG sailed out of its doldrums, rising 1.7 per cent in the strongest volume in more than a month. The Hang Seng Index climbed 46.25 points to 2,809.58, *its best since* late November when the Government downgraded its economic growth forecast for 1989. Turnover leapt from HK$634m to HK$1.06bn.

Gains were led by a 2.3 per cent rise in the property sub-index, and a strong rally in Hongkong Bank which rose 20 cents to HK$7.25 on reports that it will reveal the size of its inner reserves next March.

MANILA dropped again in the aftermath of the attempted coup, the composite index shedding 49.61 to 1,162.21 for a 12 per cent decline since the market reopened on Monday.

Analysts fear foreign investors may pull out of the Philippines. Business leaders told President Cory Aquino last month that the economy could not generate the growth it needed without foreign input.

SINGAPORE continued its rise with the Straits Times industrial index up 6.27 at 1,454.81, *its second successive* post-1987 crash high. Sentiment was lifted by the strong performance in Hong Kong.

SIA foreign gained 50 cents to S$21.90 on rumours that the airline may announce a tie-up with Swissair.

TAIWAN staged a technical rebound, on late buying interest after two days of declines. The weighted index closed 163.32 higher at 8,339.40, in volume of 768m shares and NT$79.2bn compared with Monday's 789m and NT$81.5bn.

AUSTRALIA was mostly easier, but mining issues were boosted by the steady climb of the gold price, and the gold shares sub-index rose 35.3 to 1,738.7.

Bond Corp lost 1 cent to 15 cents, and Bell Resources 1 cent to 43 cents on the deal with Adelaide Steamship, which dropped its lawsuit seeking to place Bell into receivership.

NEW ZEALAND's Barclays index lost another 26.25 to 1,962.47 in moderate volume, bringing its fall to 5.4 per cent over five days.

BOMBAY came back from a day's holiday to volatile new account trading. Share prices ended mixed, but the stock exchange index still jumped 36.91 to 792.99, a new high for the year.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY DECEMBER 11 1989						FRIDAY DECEMBER 8 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (85)	146.43	−0.8	136.58	124.32	−0.5	5.47	147.26	138.23	124.98	160.41	128.28	143.97
Austria (19)	162.24	+1.7	151.32	149.03	+1.6	1.63	159.56	149.77	146.69	172.22	92.84	97.74
Belgium (63)	148.63	+0.0	138.63	136.16	−0.4	4.08	148.69	139.57	136.77	150.00	125.58	134.74
Canada (122)	151.23	+0.1	141.06	127.35	+0.2	3.20	151.11	141.84	127.15	154.17	124.67	121.07
Denmark (36)	231.93	−0.6	216.33	216.46	−0.6	1.46	233.28	218.97	218.29	237.06	165.85	155.90
Finland (26)	129.81	+0.3	121.08	113.50	+0.0	2.48	129.44	121.50	113.45	159.16	118.63	135.21
France (126)	147.62	−0.1	137.69	139.80	−0.4	2.66	147.71	138.65	140.30	147.71	112.57	111.87
West Germany (96)	110.99	+0.7	103.52	101.90	+0.4	2.05	110.18	103.42	101.51	111.41	79.56	87.45
Hong Kong (48)	115.92	+0.1	108.13	116.23	+0.1	4.90	115.80	108.70	116.16	140.39	86.41	110.44
Ireland (17)	170.93	+0.7	159.43	161.37	+0.4	2.69	169.68	159.26	160.78	171.45	125.00	130.44
Italy (97)	92.33	−0.6	86.12	89.92	−0.7	2.54	92.87	87.17	90.58	96.73	74.97	84.88
Japan (455)	196.79	−0.1	183.55	179.68	+0.0	0.45	197.07	184.98	179.63	200.11	164.22	189.25
Malaysia (36)	213.16	+0.1	198.82	222.56	+0.4	2.38	212.87	199.81	221.77	213.19	143.35	142.00
Mexico (13)	301.85	+1.5	281.55	877.88	+1.6	0.59	297.37	279.13	864.46	326.81	153.32	175.19
Netherland (43)	137.42	+0.2	128.16	124.97	−0.2	4.28	137.19	128.77	125.20	137.42	110.65	110.54
New Zealand (16)	72.81	−0.9	67.91	65.09	−1.0	5.49	73.50	68.99	65.74	88.18	62.64	65.61
Norway (24)	188.64	+0.7	175.96	173.16	+0.5	1.58	187.38	175.87	172.23	198.39	139.92	133.19
Singapore (26)	171.16	+0.2	159.65	152.31	+0.0	1.97	170.87	160.39	152.25	171.16	124.57	119.73
South Africa (60)	185.68	+2.6	173.19	158.66	+1.2	3.61	181.02	169.91	156.71	185.68	115.35	122.30
Spain (43)	159.66	+0.0	148.93	138.07	−0.1	3.81	159.59	149.80	138.25	169.75	143.14	149.76
Sweden (35)	176.09	+0.7	164.24	165.33	+0.8	2.07	174.86	164.13	164.37	168.94	138.45	143.38
Switzerland (62)	91.47	+0.1	85.32	90.57	+0.0	1.98	91.43	85.82	90.55	94.18	67.81	79.08
United Kingdom (304)	152.08	+0.2	141.85	141.85	−0.5	4.36	151.83	142.52	142.51	158.41	133.28	133.97
USA (544)	141.25	−0.1	131.75	141.25	−0.1	3.31	141.33	132.66	141.33	146.29	112.13	112.63
Europe (991)	134.60	+0.2	125.54	124.97	−0.2	3.37	134.37	126.13	125.27	134.60	112.68	113.59
Nordic (121)	175.88	+0.2	164.06	157.81	+0.0	1.80	175.60	164.82	157.84	178.38	137.96	136.32
Pacific Basin (668)	191.75	−0.2	178.85	175.01	+0.0	0.69	192.05	180.26	175.00	194.72	160.44	184.16
Euro−Pacific (1659)	169.00	−0.1	157.63	155.00	−0.1	1.56	169.08	158.71	155.11	169.43	141.56	155.91
North America (666)	141.75	+0.0	132.21	140.38	+0.0	3.30	141.81	133.11	140.43	146.66	112.79	113.07
Europe Ex. UK (687)	122.80	+0.2	114.54	114.64	−0.1	2.69	122.59	115.07	114.75	122.88	96.30	100.61
Pacific Ex. Japan (213)	131.47	−0.3	122.63	117.55	−0.3	4.91	131.88	123.79	117.91	140.05	111.98	123.32
World Ex. US (1854)	168.62	+0.0	157.28	154.33	+0.0	1.63	168.65	158.30	154.41	168.91	141.49	154.97
World Ex. UK (2094)	158.36	+0.0	147.71	150.70	+0.0	1.95	158.44	148.72	150.72	158.72	136.98	136.78
World Ex. So. Af. (2338)	157.61	+0.0	147.01	149.78	−0.1	2.14	157.68	148.01	149.88	157.90	136.67	138.43
World Ex. Japan (1943)	139.24	+0.1	129.88	134.44	−0.1	3.39	139.16	130.63	134.58	140.43	114.51	113.82
The World Index (2396)	157.78	+0.0	147.17	149.84	−0.1	2.15	157.82	148.14	149.92	158.00	136.68	138.33

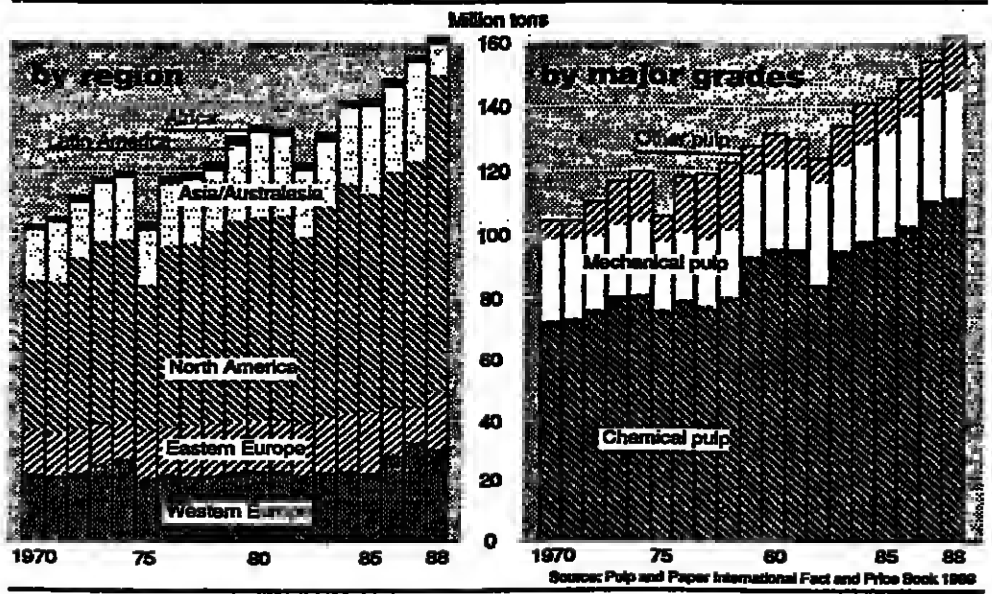
Latest prices were unavailable for this edition.

SECTION III

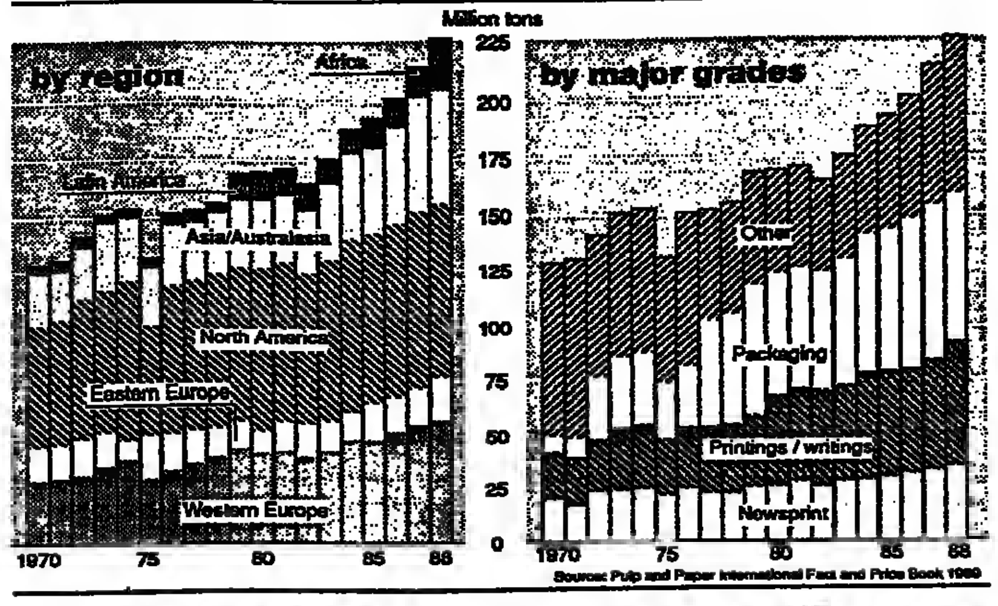
FINANCIAL TIMES SURVEY

Despite the strength of the international pulp and paper industry, there are increasing signs that the highly-competitive market may now be softening — just as substantial new production capacity is coming on stream , as **Maggie Urry** reports here

World pulp production



World paper and board production



World Pulp and Paper Industry

Puzzling time for producers

AROUND the world, pulp and paper-makers can barely believe the strength their industry has shown over recent years. Profits have risen sharply, and balance sheets have been strengthened.

Demand for paper has grown rapidly, helped by good economic growth and the marked expansion in areas such as advertising and newspapers.

The much-talked about "paperless office" has failed to materialise — if anything the computers in offices and industry churn out ever increasing quantities of listing paper, and photocopiers are using more and more paper, too. The arrival of modern facsimile machines has spawned a growth market in thermal paper, which shows few signs of slowing.

Prices for paper have risen fast, and for pulp even more so. The paper-makers' only grumble is that their margins have been squeezed by the inexorable increases in pulp prices. That complaint is now showing through in profit performances for some companies, with slower rises or even downturns in evidence.

Yet everyone in the industry understands its "boom and bust" nature. Despite hopes that "this time round it will be different," as night follows day, there must come a time when the pulp and paper industry turns down once more. The fundamental causes of the cycle have not been changed.

Investment in the industry is always on a large scale — both in terms of the cost and the capacity a new pulp or paper mill brings into the market. Stora, one of the leading Swedish forest products groups, has estimated that the cost of a new world-scale pulp mill would now be between $700m (£450m)and $1bn (£640m).

"Pulp is traded as a commodity and the price is highly sensitive to changes in supply and demand," Stora said at the time of its share listing on the London stock exchange last month. "The major impact on price is the significant increase in world capacity which results from the commissioning of each new pulp mill."

The long lead times involved in building a pulp mill or paper machine, mean that new capacity generally has to be planned two years or more in advance. The moment when the bankers are happy to lend on a project is when prices and profits are high. By the time the investment bears fruit, the climate can be very different.

Thus, during the last few years of buoyant conditions, new capacity came on stream sparingly at first — manufacturers made better use of existing capacity before planning new. But latterly new capacity has come at a faster pace.

Now there are many plans for building new pulp and paper capacity which could come to fruition just when the market is softening. The fear is that the extra capacity will push an already weak market into decline.

Snch heavy investment requires operators of mills to run at as high a level of capacity as possible. The new capacity is naturally the most efficient with the lowest costs, and operators of older capacity are the ones to suffer if prices are cut to win business in an attempt to ensure optimal use of machines.

Stora points out that in pulp "no substantial increase in capacity is due to be completed prior to 1991. After 1991 it is forecasted that substantial new capacity will be available." Yet the rises in pulp prices of the last few years now appear to have ceased, and people are beginning to think of prices falling again.

Talking about installing new capacity is one of the industry's favourite games. Each company tries to pre-empt the plans of others, attempting to frighten their rivals into abandoning expansion, often without success. This high stakes poker game of bluff and counter-bluff makes the industry all the more difficult to predict.

There are already clear signs of the beginning of a downturn in some sectors of the market. In North America, for example, newsprint prices are now being heavily discounted and some groups have taken extended downtime on their machines.

The cause is flagging growth in demand for newsprint in the US, in the year after the presidential election year. At the same time new capacity is due to come on stream. Price-cutting has resulted in lower profits from some of the leading newsprint makers. Bowater Incorporated, for example, revealed that in the third quarter of the year its newsprint operations saw profits halved.

Statistics from the Canadian Pulp and Paper Association show that whereas its newsprint industry was running at virtually 100 per cent of capacity in 1988, the operating rate has come down to 95 per cent — still a level at which profits can be made, so long as prices are not slashed.

The Canadian statistics show that so far in 1989 the industry has been able to sell less of its production to its home market and to the US. Instead, the industry has been exporting to other markets, with sales outside North America up 15.7 per cent in the first 10 months of the year, and up 39.1 per cent in October.

As newsprint, and pulp and paper in general, is such an internationally traded commodity, misery from one market quickly shifts to another. Fairly small increases in sales of newsprint into Europe, for example, from North America has ensured significant discounting of prices thers as well. The same is true for other markets.

Pulp and paper makers are constantly seeking ways to insulate themselves from the extremes of the cycle. There has been a wave of mergers and acquisitions in the industry as companies attempt to balance their operations — for example, by owning both pulp and paper operations so that the effect on profits of swings in pulp prices can be evened out; or by moving into activities further downstream, such as bnying consumer product groups, as Svenska Cellulosa of Sweden did with its purchase of Peaudouce, the French disposable nappy maker.

At the same time, mergers have taken place across frontiers, as companies have sought to even up national differences, as not all economies move in step. Pulp and paper groups are also facing up to the challenges posed by the single European market, and the new trade agreement in North America.

There is also the endless quest for lower production costs. When prices are falling it is those companies with the highest production costs that are likely to be losers in the game of musical chairs.

Mr John Georges, the chairman of International Paper, the largest paper company in the world, believes that his company is now mnch less exposed to the "boom and bust" cycle following billions of dollars of deals and investment: "People remember the severe recession of the early 1980s," he said recently. "They're using that as a benchmark for us and my gut feeling is that it's not going to be so bad."

Another important challenge facing the industry at the moment is the question of the effect pulp and paper making has on the environment. The environment has become an important political issne in many countries — and it is one which has many pulp and paper groups on the defensive, despite the fact that some have a good record on dealing with problems such as effloent.

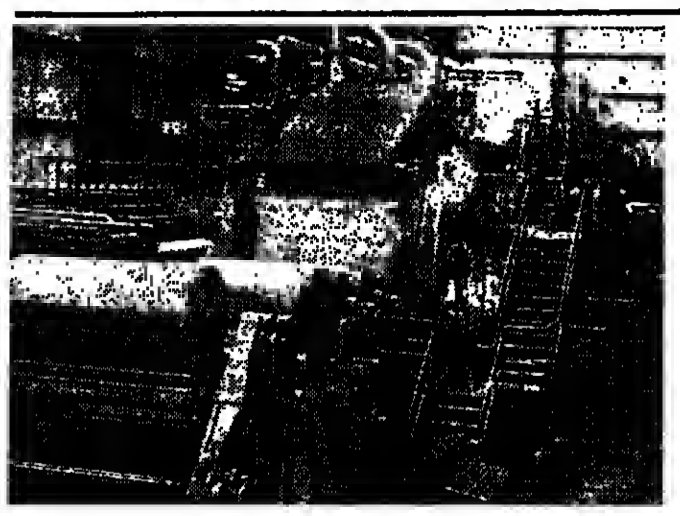
Cleaning up production processes inevitably costs money, adding to the investment pulp and paper makers have to support. Chemicals used in the process can be substituted with less damaging ones, and water can be treated after use before it is put back into rivers.

Plantations of trees destined to make paper can be better managed than the dark spruce forests, lacking in other flora or fauna, which have disfigured some of the most beautiful parts of Scotland. Paper makers could put more emphasis on the fact that the industry is using a renewable resource, and that plantations should be regarded as s crop like any other agricultural product.

Most important, most paper can be recycled, having the additional benefit that it takes tonnes of rubbish out of the waste stream which might otherwise be expensively bulldozed into landfill sites. Paper has been recycled for years, yet it is only recently that paper-makers have caught on to the marketing possibilities that recycling has in the era of the "green consumer".

Perhaps this illustrates the fact that pulp and paper makers have traditionally had too much of a production-led attitude: put a few paper-makers in a room together and they will soon be rattling off machine speeds or widths, or discussing a new head box or press section.

As with other industries, a greater interest in marketing their products — ranging from pricing strategies to ways of meeting customers needs, and so adding value — could play a part in reducing the effect of the paper cycle.



□ **Pictured, left: a coating machine for the manufacture of carbonless copying paper at Wiggins Teape's Ely mill, Cardiff.**

■ **ON OTHER PAGES**
■ **Key statistics; mergers and acquisitions, page 2**
■ **Fibre and pulp supplies, page 4**
■ **Environment issues, page 4**
■ **International markets, pages 6-10.**
■ **Machinery suppliers, pages 7,10.**

Editorial production: Michael Wiltshire

Worldwide expansion

THE PULP and paper industry worldwide has been enjoying the longest period of expansion that most people in the business can remember. For six years – 1982-1988 – output has risen. This year is likely to be a record year too, and in most cases prices have been increasing as well. A record run of pulp price increases saw prices rise for thirteen consecutive quarters.

Leading pulp and paper companies have been able to record rising profits and profitability. That enables them to re-invest in evermore up-to-date mills and machines, each with the goal of becoming the most efficient, lowest-cost producers. Even so, there is still a huge number of separate companies in the pulp and paper industry, compared with some, far more concentrated sectors.

The "64 dollar question" facing the industry now is whether the notorious five-year paper cycle has been broken, and the slumps seen in the past will not recur.

However, there are already signs of weakening demand, price rises are becoming much harder to push through, paper makers are complaining that pulp cost increases are not being passed on to customers and margins are being squeezed. In many sectors, sizeable new capacity is coming on stream over the next couple of years. The industry's notorious cycle may be about to turn down once more.

Maggie Urry

World Paper and Board Production

Region	1987 ('000 tons)	1988 ('000 tons)
European Community	32,785	35,012
Scandinavia	17,436	18,484
Other Western Europe	3,504	3,866
Total Western Europe	53,725	57,362
Eastern Europe	17,534	17,857
Total Europe	71,259	75,219
North America	83,579	85,115
Asia	45,156	49,452
Latin America	10,496	10,541
Australasia	2,322	2,556
Africa	2,356	2,445
WORLD TOTAL	215,167	228,327
Production by grade		
Newsprint	30,350	31,694
Printing/writing papers	57,004	60,358
Packaging papers	63,636	69,773
Other paper	28,619	30,889
Other board	29,658	33,633

Source: Pulp and Paper International

THE TOP 150

- Consolidated sales in 1988 of the top 150 pulp and paper companies (with 1987 figures in brackets): $218,844m ($185,825m).
- Sales from pulp, paper and converting operations: $160,718m ($136,801m).
- Net earnings in 1988: $21,352m ($15,702m).
- Assets: $240,466m ($196,031m).
- Production in 1,000 tons: market pulp: 26,700 (26,349).
- Paper and board: 129,145 (123,213).
- Percentage of world total P&B output by the top 150: 57.1 (57.2).
- Employment: 1,228,000 (1,095,000).

Figures of sales, earnings and assets are in current dollars for the year in question: no allowance for inflation. Source: Pulp and Paper International

THE MILLION TONNERS' CLUB

HERE is a list of 40 companies (within the "Top 100" ranking for 1988), showing also the company output in '000-ton figures:

International Paper (1), 5,898
Stone Container, (7), 4,063
Georgia Pacific, (11), 3,980
James River, (2), 3,900
Champion International, (5), 3,521
Great Northern Nekoosa, (8), 3,390
Boise Cascade, (17), 3,340
Stora, (13), 3,295
Weyerhaeuser, (9), 3,247
Scott Paper, (4), 2,500
Noranda Forest, (19), 2,463
Abitibi-Price (36), 2,451
Oji Paper, (6), 2,415
Daishowa Paper (16), 2,383
Jujo Paper, (10), 2,379
Fletcher Challenge, (21), 2,237
Westvaco (27), 2,155
Kimberly-Clark (3), 2,150
Enso-Gutzeit (31), 2,110
Mead (22), 1,901
Honshu Paper (14), 1,807
Consolidated Bathurst (33), 1,774
Kymmene, (30), 1,757
MoDo, (12), 1,744
Jefferson Smurfit Group, (18), 1,697
Feldmühle, (24), 1,659
Union Camp, (22), 1,598
Bowater Inc. (38), 1,433
Yhtyneet Paperitehtaat, (40), 1,358
Tao Paper, (29), 1,355
PWA, (25), 1,349
KNP, (45), 1,318
Svenska Cellulosa, (15), 1,240
Domtar, (41), 1,220
Willamette Industries, (46), 1,128
Cartiere Burgo (48), 1,098
Haindl Papier (53), 1,070
Sanyo-Kokusaku Pulp, (32), 1,065
La Cellulose du Pin, (43), 1,065
Settsu, (65), 1,028
Total for 40 companies: 87,539

Per capita consumption (kg) of pulp and paper

1. United States, 317.8
2. Sweden, 311.3
3. Canada, 248.7
4. Switzerland, 208.6
5. Japan, 204.5
6. Finland, 204.0
7. German Fed. Rep., 203.7
8. Denmark, 202.0
9. Belgium, 195.3
10. Netherlands, 194.7
11. United Kingdom, 163.6
12. New Zealand, 157.0
13. Australia, 155.5
14. Taiwan, 153.0
15. Norway, 151.2
16. Hong Kong, 147.0
17. Austria, 144.5
18. France, 142.2
19. Italy, 108.4
20. Iceland 104.4

Figures are apparent consumptions, except for Finland which is an estimate by Finnpap. Source: Pulp and Paper International.

Capacity at UK Paper's New Thames Mill will increase 30 per cent to exceed 180,000 tonnes in 1990. The machine above competes with the largest in Western Europe.

World's Top 20 Pulp and Paper Companies

COMPANY (HEADQUARTERS)	CONSOLIDATED RESULTS 1988 Sales ($m)	Earnings ($m)	PRODUCTION 1988 (1,000 metric tonnes) Market pulp	Paper & board
International Paper (New York, US)	9,533.0	754.0	977	5,898
James River (Richmond, US)[1]	5,871.8	500.6	–	3,900
Kimberly-Clark (Dallas, US)	5,393.5	378.6	–	2,150e
Scott Paper (Philadelphia, US)	4,726.4	391.4	50e	2,500e
Champion International (Stamford, US)	5,128.5	458.4	525	3,521
Oji Paper (Tokyo, Japan)[2]	4,690.5	209.9	–	2,415
Stone Container (Chicago, US)[1]	3,742.5	489.9	297	4,063
Great Northern Nekoosa (Norwalk, US)	3,588.1	516.9	485	3,390
Weyerhaeuser (Tacoma, US)[1]	10,004.0	980.0	1,323	3,247
Jujo Paper (Tokyo, Japan)[2]	3,890.5	124.0	23	2,379
Georgia-Pacific (Atlanta, US)[3]	9,509.0	467.0	789	3,980
MoDo (Ornsköldsvik, Sweden)	3,167.8	235.2	689	1,744
Stora (Falun, Sweden)	5,590.6	731.0	1,210	3,295
Honshu Paper (Tokyo, Japan)[2]	3,364.5	30.4	–	1,807
Svenska Cellulosa (Sundsvall, Sweden)	3,402.9	330.7	380	1,240
Daishowa Paper (Fuji City, Japan)[2]	2,609.9	222.7	–	2,383
Boise Cascade (Boise, US)	4,094.6	476.7	448	3,340
Jefferson Smurfit Group (Dublin, Ireland)[4]	2,479.7	273.5	–	1,697
Noranda Forest (Toronto, Canada)[4]	3,831.2	213.7	1,206	2,463
Canadian-Pacific FP (Vancouver, Canada)	2,442.4	282.8	933	396

NOTES: Sales are gross sales unless otherwise noted. Earnings are net earnings (profits) unless otherwise noted. Only data reported in tonnes given for converted products. e = PPI estimate, company declined to supply data. 1. Sales recorded are net sales; 2. Fiscal year ending 31 March 1989; 3 Net Earnings are after taxes and depreciation; 4. Fiscal year ending 31 January 1989; 5. Net Earnings are after tax and before extraordinary items.

Source: Pulp and Paper International

Investment in new technology at Wiggins Teape's Stoneywood paper mill has made it one of the most advanced in Europe in process control

MERGERS AND ACQUISITIONS

Year of intensive corporate activity

THERE IS no denying the intensity of corporate activity in the world pulp and paper industry. Almost weekly, news comes of yet another large takeover or merger, or of a significant investment, frequently outside the investing company's home country.

The year started with the $2.2bn takeover of Consolidated-Bathurst, the Canadian pulp and newsprint group, by Stone Container, the US packaging paper group. The combined group becomes the second largest in the world.

Early in the year, too, International Paper, the world's leading pulp and paper group, bought Aussedat-Rey in France, paying $320m with a plan to invest as much again on developing pulp capacity. It followed with the purchase of Ilford photographic products from Ciba-Geigy, the Swiss chemical and pharmaceutical group. More recently it has taken a 51 per cent stake in Zanders, the West German paper group.

Wall Street has been enthralled lately by the $3.5bn bid from Georgia-Pacific for Great Northern Nekoosa, the first unsolicited bid in the US industry.

The year has also seen a reorganisation of the European tissue industry with James River, of the US, Nokia of Finland, and Ferruzzi of Italy, forming joint ventures.

Béghin-Say, the French foods group, has sold its paper interests, raising FFr 2bn. And recently *Metsä-Serla of Finland* has agreed a £263m bid for for UK Paper, the fine paper group.

There are many factors behind these sorts of moves. But at the simplest level, it is all about size. As Mr Bo Berggren, president and chief executive of Stora, the Swedish group, puts it, "in our business, size is very important." He should know, since the Swedish paper industry is now dominated by only three companies.

Companies which are not committed to the paper industry are heading for the exit, while those which see themselves as long-term players are expanding. One thing is certain, the vast scale of investment necessary in the industry prohibits any company from being half-hearted about it. During the 1980s buying capacity has often been cheaper than building it.

By being larger, these companies hope, they will be stronger and better able to compete. As the pulp and paper industry is now an international one, with products freely traded across borders and oceans, companies are realising it is not enough to be large in just one country, they must operate internationally.

Companies have been keen, for example, to gain production capacity in areas of the world seen as important. The prospect of a single market in the European Community after 1992 has persuaded many companies both inside and outside the EC to invest or make acquisitions in Europe.

Another factor pushing companies into deals is that if the industry is entering a period of declining volumes, or even simply slower growth, it is important for manufacturers to grab strategic positions in markets first.

The ultimate goal is always to be the lowest cost producer, and thus more able to survive at lower prices than competitors

Greater integration in manufacturing from forest land to making final products, even owning distribution networks through paper merchants, is another motive for merger activity or investment. The sharp rise in the pulp price in the last few years has exposed many paper makers to a squeeze on margins. Equally pulp companies are now realising that their good times are ending. Buying paper making capacity which can provide an outlet for their pulp can balance their businesses better.

As competition is international, companies have been anxious to balance any disadvantages they have in their domestic industries by expanding overseas. A company based in a nation where energy costs are high – for example – may feel it should buy into an area where cheaper energy is available. Similarly groups whose local wood costs are high will invest in countries where wood costs are lower. Stora's investments in Portugal and Chile coma into this category.

The rapid developments in technology are another factor. Larger groups can spread the cost over a wider base, transferring technology that has been successful in one mill to another.

The ultimate goal is always to be the lowest cost producer, and thus more able to survive at lower prices than competitors. To this end, companies are investing in larger and larger machines, playing the economies-of-scale game for all they are worth, particularly in the commodity grades.

Yet despite this concentration of power, there are still numerous smaller companies left. In previous downturns in the industry cycle these have been often been squeezed out, so removing capacity from the markat. Even in tha better times the industry has seen lately some smaller groups have found it better to agree to a takeover than struggle on alone.

For instance, Thomas Tait, the Scottish paper group, found its debt burden from heavy investment too much and in March this year agreed to a takeover from Federal Paper Board of the US, one of its pulp suppliers.

The question now is whether the concentration in the industry will lead to a lessening of the peaks and troughs of the paper cycle, or if it will merely serve to make companies even more competitive.

Mr Richard Harris, of Celpap, the consultancy group, argues that larger companies will "help smooth out some of the supply troughs. As the industry concentrates there will be more control over capacity, and a more disciplined approach to putting capacity in."

As companies grow larger and work across borders, they will have the ability to take a global attitude towards their capacity. In the past a US group, for example, might abandon exporting to Europe in times of strong domestic demand and then flood the European market with cut prica paper when homa demand weakens. In future that same company may have production in Europe too, and take a more responsible attitude to price cutting.

However, that argument only works if companies build new capacity on the basis of real need. All too frequently the industry has indulged in pre-emptive announcements of planned new mills, intended to frighten the opposition.

Maggie Urry

A glossary of terms used in the industry

HERE is a glossary of some of the terms commonly used in the pulp, paper and board industry.

Board: paper above an accepted weight, normally 220-225 grams per square metre.

Coated Paper: paper to which a coating has been applied on one or both sides, using a mix of clay or carbonates and latex to create a high quality printing surface.

Converting: a manufacturing plant which uses paper to make paper-based products, such as packaging or consumer products.

Corrugated case materials: paper used in making corrugated board, largely for boxes, notably linerboard which forms the outer layers and fluting the ridged inner layer of corrugated board.

Linerboard can be divided into kraftliner which is mainly made from virgin fibre, and testliner, made from recycled fibre.

Fibre: the particles of (mainly) wood, used to make paper, including long fibre, a softwood fibre made from trees such as pine and spruce noted for its strength, which is useful for packaging papers, and short fibre, made from hardwood trees, such as birch and eucalyptus, used where the texture is more important such as printing and writing papers and tissue.

Fibre can also be classified as virgin fibre, which has not been used before, and recycled fibre (RCF), fibre produced from wastepaper.

Furnish: the blend of pulps and additives provided to the paper machine for making paper

Integrated mill: a mill which makes pulp and uses it to make paper.

Kraft paper: paper used for sacks, bags and packaging.

Paper grades: paper is classified into different grades, according to the end use, the pulp used and the treatment of the paper.

Paper machine: the machine on which paper is made. Typically pulp with a high proportion of water is introduced to the head box from which it is sprayed onto a moving surface, the wire, through which water drains. The paper then goes through a press section where more water is squeezed out by a series of mangles, the pressure being applied where the mangles meet, called the nip.

After that, it passes through a drying section where it is fed rounded heated rollers. By the end of the process most of the water has been removed. The paper can be calendered, rolled to give it a surface gloss, and can be coated on the machine or as a separate process afterwards. It is wound on to reels.

Publication papers: paper grades largely made from mechanical pulp used for publications. They include newsprint for newspapers, and grades such as light, medium or heavy-weight coated used for catalogues, magazines and advertising material.

Pulp: the basic raw material from which paper is made, which can make up half the cost of paper production. There is a variety of types of pulp. *Chemical pulp is made by* cooking wood chips in solutions of various chamicals which removes the lignin in the wood. This produces a lower yield from the wood than groundwood or mechanical pulp made by grinding the wood.

Thermo-mechanical pulp (TMP) involves grinding chips under pressure and at a high temperature; **Chemical thermo-mechanical pulp (CTMP)** involves a combination of the different process producing a higher yield than chemical pulp.

Market pulp is pulp which is sold on the open market rather than used in an integrated mill. **Fluff pulp** is used for the production of absorbent paper.

Operating rate the ratio of actual production to the theoretical capacity of a machine or mill. Because the capital investment in a machine or mill is large, operators are anxious to run the equipment at as high an operating rate as possible. This sometimes leads to price cutting when supply exceeds demand in an attempt sell more production and keep capacity utilisation high.

Tissue paper: absorbent paper used for a variety of hygienic purposes.

Woodfree or fine paper: made mostly from chemical pulp, which can be coated or uncoated. These grades of paper are used in offices, for example, for photocopying and stationery, and printing of brochures, such as annual reports and prospectuses.

Maggie Urry

What the top 150 companies bought and sold

HERE is a selection of what some of the world's top 150 pulp and paper companies bought and sold from January 1988 to June 1989. In this list, A = acquired; M = merged; S = sold.

■ **International Paper:** A, Aussedat Rey, France.
■ **James River:** A, Ridgway folding carton companies, US; A, 6.4% of Aracruz Celulose, Brazil; Diamond Occidental Forest, US; M, formed a 50:50 tissue joint venture with Sarrio, Spain; A, 50% of Ipek Kagit, Turkey; A, Wyomissing Paper Division of Paper Corporation of America.
■ **Scott Paper:** A, Texstyrene Corp.'s foam cup, injection molding and US and Canadian crystal and expandable polystyrene business; S, part ownership of Brunswick Pulp and Paper to Georgia-Pacific, US
■ **Stone Container:** A, Consolidated-Bathurst, Canada.
■ **Georgia-Pacific:** A, Brunswick Pulp and Paper Co. from joint owners Scott and Mead.
■ **MoDo:** M, with Holmens Bruk and Iggesund of Sweden.
■ **Stora:** A, Swedish Match, Sweden.
■ **Svenska Cellulosa:** A, Peaudouce sanitary products converter, France; A, Italcarta, Italy; A, Papierfabrik Laakirchen, Austria; A, Bowater Containers, Belgium and Givray, France.
■ **Jefferson Smurfit Group:** A, 100% of Industrial Cartonera, Spain; A, 30% of Papelera Navarra, Spain; A, 35% of Inpacsa, Spain.
■ **Fletcher Challenge:** A, 50% of Australian Newsprint Mills; A, 50.3% economic interest in Papel de Imprensa (Pisa), Brazil; M, Crown Forest Industries of Canada with Fletcher Challenge Canada Ltd.
■ **Mead:** S, joint ownership of Brunswick Pulp & Paper to Georgia-Pacific.
■ **Feldmuhle:** A, 50% share of Papeterie Beghin-Corbehem, France: A, control of Papierfabriek Langerbrugge, Belgium.
■ **PWA:** A, 76% of Papelera Calparsoro, Spain.
■ **Kymmene:** M, Oy Wilh Schauman into its operations.
■ **Arjomari-Prioux:** A, Guerimand-Voiron, France.
■ **Yhtyneet Paperitehtaat:** A, majority of Stracel pulp mill, France; A, outstanding shares of Joutseno Pulp, Finland, from Rauma-Repola; M, with Kajaani, Finland.
■ **Sonoco:** A, a paper mill in Virginia, US, from Federal Paper Board; A, cone and tube operations of Pak Pacific Corp., Australia; A, board, tube and core producer Gunther Group, France.
■ **La Cellulose du Pin:** A, majority holding in Italian converter, Sisa.
■ **Metsä-Serla:** A, Holmen Hygiene, Sweden, from MoDo.
■ **KNP:** A, substantial share of Leykam-Mürztaler, Austria.
■ **Reedpack:** S, Empire mill to Tofte Industrier, Norway.
■ **Haindl Papier:** A, 20% of Steyrermuhl, Austria.
■ **Sappi:** A, Saiccor dissolving pulp mill from Courtaulds, UK.
■ **Federal Paper Board:** A, Thomas Tait & Sons, UK.
■ **Södra Skogsägarna:** S, three paper mills to management in May, 1989.
■ **Korsnäs:** A, DRG's paper sacks factory in Northfleet, Kent, UK.
■ **David S. Smith (Holdings):** A, Kemsley Division of UK Paper.
■ **Tampella:** A, Esselte Well, Sweden.
■ **Torras Hostench:** A, 50.01% of Cellulose des Ardennes, Belgium; A, Celupal, Spain.
■ **Cantor Corp:** M, Howe Pulp and Westcoast Cellufibre Divisions were put into Howe Sound Pulp and Paper in which Cantor has a 50% interest.
■ **Sarrio:** M, tissue operations into a new 50%-owned company with James River, US.
■ **Pope & Talbot:** A, four disposable diaper plants from Georgia-Pacific.
■ **UK Paper Ltd:** S, Kemsley brown papers division to David S. Smith.
■ **Norske Skogindustrier:** A, Follia CTMP, Norway: M, with Follum Fabrikker and Tofte Industrier and its subsidiaries.
■ **Neusiedler:** A, Zellstoff Pöls, Austria.
■ **Garden State Paper:** S, Pomona mill to Burt Sugarman, US.

Source: Pulp and Paper International

"Forests cannot be plundered forever for fibre supplies"

Safeguarding raw materials

A GOOD SUPPLY of fibre – of the right type, at the right price and in the right place – is vital to the pulp and paper industry. Fibre is the most basic raw material of the pulp and paper-making process.

For many years the forests from which wood is taken were regarded as a limitless source of fibre. But as the paper indnstry has grown, it has become apparent that forests cannot be plundered forever. And since trees can take decades or even centuries to grow, planning the fibre supply for years ahead is essential.

As Mr Justin Stead, of SIAR, the management consultancy gronp, puts it, "in the past, there has been a mining philosophy, but now we are going over to a cropping philosophy." Rather than simply cutting whatever was wanted and ignoring the needs of the future, forests are regarded as a renewable resource. In Swedish forests, for example, every tree cut down is replaced by the planting of three or more seedlings.

In many countries, trees are now being planted by farmers as a crop, and these fast-growing plantations are rapidly increasing in importance to the industry. Many of these plantations are based on eucalyptus trees, which originated in Australia. There are now eucalyptus plantations in South America, Sonth Africa and the Iberian peninsula, which have had a significant impact on the pulp industry. In the last five years, eucalyptus fibre has increased its share of world pulp deliveries from 5 to 13 per cent, and is expected to increase that share further.

These fast-growing plantations are not only based on the hardwood eucalyptus which produces short fibre. There are species of pine which can grow rapidly, such as the radiata pine being used in Chile.

At the same time, a "second forest" has been found in the waste paper which is generated. The recycling of waste paper provides an increasingly important source of fibre, and one of the cheapest in the world.

Furthermore, pulp-makers are endeavouring to make better use of wood. For example the development of chemical thermo-mechanical pulp (CTMP) means that a greater yield can be obtained from the wood than by using chemical pulping methods.

The cost of wood is an important part of the manufacturing costs of pulp and paper, and thus companies with access to low-priced fibre can be at a distinct competitive advantage. The cost of fibre can make up half the production costs of pulp. In turn, pulp can account for half the costs involved in making paper.

Generally, wood costs are high in areas such as Western Europe, even in the Nordic countries, and in Japan. They are lower in North and South America and in New Zealand. Chile is seen as being one of the lowest cost areas for wood suitable for making pulp.

As in paper and pulp itself, there is a large international trade in pulpwood, with Europe, for example, a significant importer. This trade means that the forces of supply and demand work efficiently to price pulpwood, so as to balance availability and consumption, and to encourage other sources.

Mr Richard Cockram, of the Swedish-owned pulp and paper consultancy, Celpap, argues that there is no shortage of fibre on a worldwide basis. Although the market has been tight in recent years, which has contributed to the sharp rises in pulp prices, "no one has closed a machine because of a fibre shortage," he says.

Indeed, he expects there to be a rapid increase in the availability of fibre over the next few years, and cites the examples of new pulp mills being built close to supplies of fibre.

This partly reflects technological changes. The aspen, a tree not formerly regarded as a good source of fibre for pulp-making has been found to make good CTMP, says Mr Cockram. He argues, as well, that the recycled fibre resource is no where near reaching maximisation.

There could however, be a divergence between the availability of short and long fibre, as substantial new capacity for short fibre pulp comes on-stream in the 1990s, based on the expansion of eucalyptus.

For years, pulp and paper makers have owned forest land to cover at least part of their fibre needs. Now they are making even more of an effort to secure their fibre supplies.

Companies such as Scott Paper, which is the world's largest producer of sanitary tissue and a major coated paper maker in the US, have sought to tie up dedicated sources of pulp supply. Scott has, for example, taken an equity stake in a Chilean company which is building a pulp mill to use eucalyptus from 16,000 hectares of owned plantations.

However, Scott recently decided not to go ahead with a project in Indonesia to build a eucalyptus pulp mill, having decided that it had sufficient eucalyptus fibre resources already, and that usage of recycled fibre and higher yielding pulp could be increased instead.

Meanwhile, Stora, the large Swedish forest product group with plenty of forest land in Sweden, has built a strategy of developing lower cost pulp through investments in Celbi, its 71 per cent-owned Portuguese eucalyptus pulp mill. This has wood reserves of 45,000 hectares of eucalyptus plantations.

Stora argues that eucalyptus has many advantages over the birch trees it uses in Sweden. For instance, its eucalyptus produces a ton of pulp from three cubic metres of wood, whereas it takes four cubic metres of birch to make a ton. The eucalyptus trees also grow much faster. Trees are ready for cutting after 15 years and produce 12.5 cubic metres per hectare. By contrast, in Sweded the trees take 60 - 80 years to grow, because of the colder climate, and yield only 4.5 cubic metres per hectare.

Wiggins Teape, the UK paper company, has eucalyptus-based pulp production in both Spain and Portugal. Mr Rob Wilson, group forestry manager, says that plantations in these areas can grow fast enough to make the forests economically as well as biologically renewable – an important fact if a cropping rather than mining philosophy is being adopted.

He argues that eucalyptus plantations are not intrinsically harmful to the environment, and says that growing eucalyptus should be regarded in a similar light to growing other agricultural crops.

Using recyled fibre can also be claimed as a way to protect the environment, a topic which is becoming ever more important to the pulp and paper industry. Diverting used paper from the waste stream back to the paper mills reduces disposal costs. However, some people fear that if the proportion of recycled fibre used in paper increases and the proportion of paper which is re-used rises, then the same fibre will begin to deteriorate. A proportion of virgin fibre will be needed to ensure that the quality of paper is maintained.

Maggie Urry

PULP MARKET

An imbalance of supply and demand

PULP suppliers have been enjoying one of the tightest markets in their history in the past three years. However, there are signs that it is on the turn, indicating a period of stability or some weakening of the market.

The buyers' market of 1985 turned steadily into a sellers' market by 1987, as pulp suppliers pushed through, first, much-needed price rises and then, as demand from paper mills strengthened, even bigger increases.

US suppliers to Western Europe achieved a record series of quarterly price rises. In 13 of the 15 quarters from the beginning of 1986 to the end of this year, the dollar list price of pulp in Europe increased. This was for all the main US grades but the prime market pulp worldwide, and price leader, is northern bleached softwood kraft (NBSK) pulp. Its dollar CIF price in Europe rose 110 per cent over the period from the too-low $400 a ton at the end of 1985 to $840 today. European pulp suppliers, mostly Nordic, which sell in national European currencies, did not manage to do as well.

Sales of an international commodity in different currencies has caused problems, and this is why the dollar's value has often been the deciding factor. There were several quarters when the fall in the dollar against European currencies did not allow the European pulp suppliers to raise prices.

In the US market, NBSK delivered prices rose 108 per cent, reaching $830 today. In Japan and the east Asian markets, the dollar price dominates and prices rose by as much as they did in Europe.

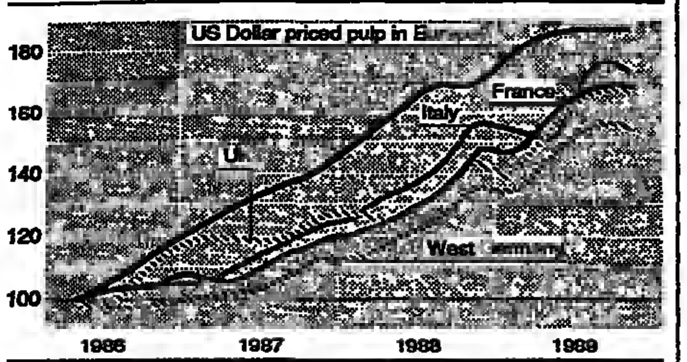
The reason for the tight pulp market is a classic imbalance of supply and demand. Papermakers in most sectors and most parts of the world have been experiencing strong, even record, demand and so needed more pulp. However, while demand was growing, the market pulp supply was not.

There has not been a big increase in the world's market pulp production capacity in the period – for example, it was about 40m tons in 1988, up just 1.5 per cent on the previous year.

Papermakers' difficulty in finding enough pulp affected all grades. But there were periods when the bleached hardwood pulps, notably eucalyptus, were in tighter supply than the softwood grades. The eucalyptus pulp prodncers, mostly in Brazil, Spain and Portugal, experienced a similar sequence of price rises as NBSK suppliers.

The rise in popularity of eucalyptus has continued. By 1986, its price had caught up with that of Scandinavian birch, a more traditional hardwood, and they now sell at the same price in Europe. Eucalyptus is mostly sold in national currencies, so for example its price in the UK increased by 104 per cent from end-1985 to £490 per ton today.

North American NBSK market pulp



□ The price of North American NBSK market pulp, which is sold in US dollars throughout Europe, climbed more steeply than that of European competitive NBSK over the last three years. Market pulp made in Europe is usually sold in the currency of the buyer.

The theory is that a rise in pulp prices allows papermakers to raise their prices too. Everybody wins except the final buyer. But paper prices could not keep up with these rapid pulp price increases. Part of the reason was that, in spite of generally strong growth in paper demand, there was rarely any severe paper shortage in Europe and North America.

New production capacity in some sectors, such as magazine grades, meant that there were paper machines ready to meet rising demand. So the non-integrated papermakers, relying on market pulp, saw this vital raw material take an increasing amount of their sales price. It varies across Europe but a non-integrated paper mill making uncoated wood-free paper had to cope with a market pulp price taking abont 75-80 per cent share of the paper's sale price in 1989, compared with about 60 per cent in mid-1986.

The market has now flattened. European and American pulp prices have remained unchanged in the second half of this year. There have been some $20-a-ton price cuts on *hardwoods in North America* in the fourth quarter. While there is little prospect of prices rising in the first quarter of 1990, it is also unlikely that they will collapse.

Demand is also weakening in some European and American paper markets, while paper mills are reducing the pulp stocks they had built up during the price rises. Several European market pulp mills are taking some extra downtime before the end of the year to keep inventories from rising too high.

The longer-term outlook for market pulp suppliers is not as rosy as the recent past. At just the wrong time, the pulp market is entering a phase when new capacity is going to arrive. This is part of the traditional cyclical nature of the business.

After a dearth of new mills, there are plans for about 2.5m tons a year of new bleached softwood kraft market pulp capacity to come on stream by the mid-1990s. For bleached hardwood kraft market pulp, the figure is closer to 6m tons a year by about the same time. This is largely due to a rush of project announcements this year in Brazil.

Brazil and Chile are likely to remain the lowest-cost producers of hardwood (eucalyptus) and softwood (radiata pine) kraft pulp respectively but several of the many projects announced in Brazil are unlikely to go ahead. However, a growing overspply, particularly of hardwood pulp, is still probable in the early 1990s. This may be worse if some other unfavourable developments occur.

These include the arrival on the market of snpplies of newer cheaper mechanical pulps. A lot of new capacity for CTMP is starting, particularly in Canada and to a lesser extent in Europe. It is being tried as part of the raw material for papers which have not used it to the same extent before, as well as its more *established sales to tissue and* disposable nappy producers.

At a lower price, about $640 a ton in the US today, it may take some share from higher-quality chemical market pulp.

Perhaps the biggest problem is the resurgence of environmental concerns. The recent reports – often exaggerated or incorrect – about the minnte traces of dioxins detected in some pulps and pulp mill effluent, caused by the use of free chlorine as a bleaching agent, are not helping the chemical pulp market. Many pulp producers are reacting fairly quickly by switching to other bleaching agents and methods. These reports are also helping the arrival of larger quantities of CTMP which is not bleached with free chlorine.

The growing popularity of paper made from recycled waste paper will not help the pulp market. While parts of the paper and board industry, such as some carton and corrugated board mills and some newsprint prodncers, have long relied on wastepaper, there are now frequent launches of papers containing much more recycled fibre for stationery and other sectors which have not traditionally used significant amounts.

Compared with the market's recent performance, the outlook for market pulp suppliers is not as good. This applies more to the hardwood pulp snppliers than the softwood pulp business because not only do they face more new capacity but they would be more affected by the arrival of CTMP and increasing use of wastepaper.

However, the outlook is not that bleak, either. The market pulp producers have gained an enormous increase in the price of their product. There is little sign of this being chipped away and, although supply is going to increase, demand for market pulp – particularly the demand from paper mills for the essential strength properties of kraft pulp – has yet to undergo any serious decline.

Peter Sutton

The writer is editor, Pulp and Paper International

World pulp production ('000 tonnes)

Region	1987	1988
European Community	9,138	9,687
Scandanavia	20,323	21,225
Other Western Europe	1,657	1,790
Total Western Europe	31,118	32,702
Eastern Europe	14,351	14,555
Total Europe	45,469	47,257
North America	77,039	79,209
Asia	20,372	22,019
Latin America	7,052	7,277
Australasia	2,072	2,263
Africa	2,474	2,526
TOTAL WORLD	154,478	160,551

Total world by grade: Chemical pulp – 108,403 (1987), 110,930 (1988); Mechanical pulp – 32,779 (1987), 35,025 (1988); Other pulp – 13,296 (1987), 14,596 (1988)
Source: Pulp and Paper International

Sweden sets the pace in tackling environmental issues

A global leader

SWEDEN is now widely acknowledged as being a global leader in tackling environmental problems caused by pulp and paper manufacturing.

The reason why such is the case is a simple one. Sweden has perhaps the toughest environmental legislation in the world. Long before environmental concerns became fashionable worldwide, the nature-conscious Swedes were passing laws mandating drastic reductions in air and water pollution. As a result, the Swedish pulp and paper industry has been spending between 12 and 15 per cent of its total investment annually on environmental protection measures over the last two decades.

"There is no other country in the world in which the forest industry allocates such a large share of its investment to the protection of the environment as does Sweden," claims Nils Jirvall, director of the environmental department at the Swedish Pulp and Paper Association and a former official with the National Swedish Environment Protection Board.

The results has been impressive. *Interest first focused* in the 1960s on biochemically oxygen-consuming substances that accumulated in rivers downstream from pulp mills and were killing marine life.

Emissions of these substances have been reduced from 700,000 tonnes in 1960 to 200,000 tonnes in 1988, despite atwo-fold increase in pulp output during the period. The next challenge was to reduce sulphur emissions in the atmosphere, which causes acid rain and represented a threat to the country's forests. The pulp and paper industry has cut its sulphur emissions by 80 percent since the mid-1970s, although Sweden must still contend with windborne pollution from the UK, France and the Baltic region.

To achieve these goals, the pulp and paper industry has concentrated on eliminating harmful substances during the production process rather than cleaning them up afterwards. The choice of this method, which is now starting to be copied by otber countries, reflected the fact that Sweden's cold climate during much of the year made external treatment of pollutant discharges difficult. But this is also a more costly and time-consuming method of controlling pollution since care must be taken that the quality of pulp and paper products are not adversely affected by the changes in the production process.

One solution to make these costs more bearable, while speeding up the introduction of changes, has been for Swedish pulp and paper companies to support joint research projects conducted by the Swedish Pulp and Paper Research Institute and other bodies. Joint spending on these programmes has totalled SKr 226m since 1970.

"This is an unique example of industry co-operation among the world's forestry companies," says Mr Jirvall, but one that is not unknown in Sweden, where companies frequently pool their resources to meet common goals.

Despite their success, the government is increasing pressure on the industry to solve its remaining environmental problems, mainly the release of chlorinated organic compounds and dioxins that result from the bleaching of chemical pulp.

The Government, bowing to growing pressure from the environmental movement, recently proposed introducing surcharges next year on the release of chlorine from pulp mills. It is an action that has angered the industry and marred its normally smooth co-operation with the government on combating pollution.

Industry claims that it has already made great progress in reducing chlorine emissions. It has cut its consumption of chlorine by 50 percent since the mid-1970s despite an one-third increase in bleached chemical pulp production. It predicts that consumption will fall by another two-thirds by 1995. The use of less chlorine has meant thet emissions of total organically bound chlorine has fallen from 8 kilograms per tonne in 1970 to 3 kilograms today and will be reduced to 1.5 kilograms in the early 1990s according to recent guidelines issued by the Ministry of Environment and Energy.

The industry is making heavy investments to achieve these goals, spending SKr 3.5bn between 1988 and 1992 on improving environmental protection at the bleaching plants of the country's 15 kraft pulp mills, accounting for half of the total investments at these mills – "we do not see the reason why the Government is forcing us to pay fines for chlorine emissions when we are already investing large sums to control them," argues Jirvall.

"Moreover, the surcharge funds collected by the Government will not be used for environmental protection projects, but will instead replace lost revenue resulting from scheduled tax cuts."

The future use of chlorine represents a particularly knotty challenge to the industry since bleached chemical pulp is one of its biggest export products, accounting for 70 percent of all pulp shipped from Sweden. Industry officials argue that chlorine cannot be completely eliminated from the manufacturing of bleached chemical pulp without affecting the quality of the paper.

Instead, the emphasis is on finding ways to reduce further the consumption of chlorine. One has been to replace chlorine with the less harmful chlorine dioxide. Oxygen bleaching has been introduced in most Swedish pulp mills, replacing chlorine at some stages of the bleaching process.

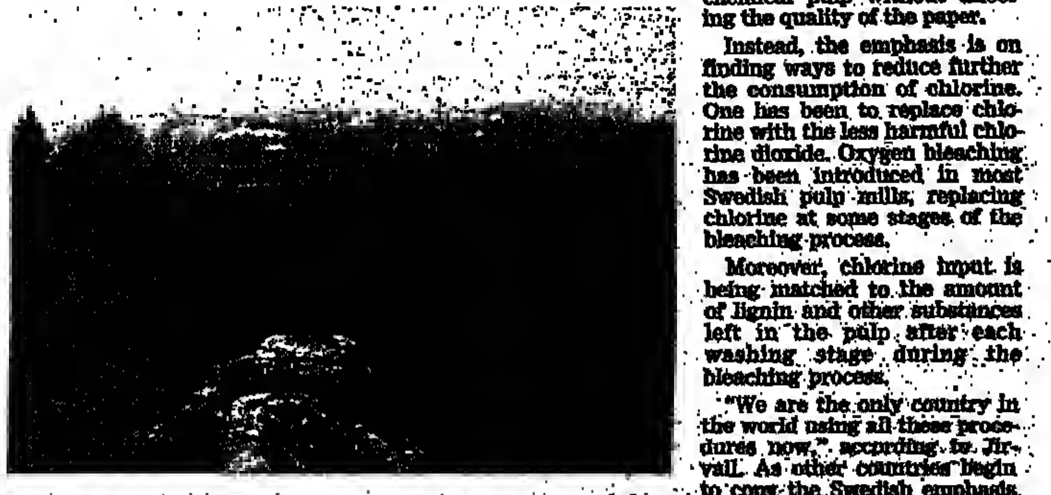
Moreover, chlorine input is being matched to the amount of lignin and other substances left in the pulp after each washing stage during the bleaching process.

"We are the only country in the world using all these procedures now," according to Jirvall. As other countries begin to copy the Swedish emphasis on production technology in controlling pollution from pulp and paper mills, Sweden's long investment in developing these processes will pay off in terms of international sales.

For example, the discovery of dioxins in bleached paper several years ago resulted in the identification of new production methods by Swedish scientists to eliminate the formation of dioxins during the chlorine bleaching process.

Nevertheless, the industry must still deal with the court of pnblic opinion. Recent media attention paid to bleached paper products has resulted in lost market shares compared with unbleached paper, which is advertised as being more environmentally friendly.

John Burton



Environmental protection demands substantial investment

Problems for Finnish manufacturers

Exporters' cause for concern

SINCE *most national* forest analysts believe that Finland's paper and pulp industry will continue to be the backbone of this country's economy in the next century, the greatest challenge to the industry will be to retain a strong presence in the traditional export markets.

Finland's domestic paper and pulp market is tiny and reaches only 8 per cent. The forest industry has, therefore, always been dependent on exports to western Europe, although the US and Japan offer marginal opportunities.

While the sector has benefited from the world paper industry's growth levels, forest industry leaders are worried about Finland's economic prospects – "the deterioration of the Finnish economy is a cause for great concern. It is obvious that if our labour costs continue to go up faster than in those countries we compete against, our competitiveness will deteriorate," says Mr Casimir Ehrnrooth, chief executive of Kymmene Corporation, Finland's largest paper and pulp company with group turnover reaching FM10.37bn ($2.44bn) in 1988.

One of the biggest headaches of Finnish industry this year has been inflation, which has soared from 5.1 per cent in 1988 and is forecasted to reach over 7 per cent this year.

Another indication of the hard economic times is the current account deficit, which will slip from last year's FM12.58bn to an estimated FM19bn at year's end; the trade surplus will also drop – from a surplus of FM784m in 1988 to a deficit of around FM3bn in 1989. To add to the woes of the Finnish forest industry, the Finnish markka was revalued by 4 per cent last March.

Mr Ehrnrooth believes that the best way for a Finnish paper and pulp company like his to manage risks such as the worsening state of the economy is by "going global."

The securing of cheaper energy in the next decade is another significant challenge for Finnish paper and pulp companies. Just before the Chernobyl catastrophe in April 1986, Finland was on the verge of ordering a fifth nuclear plant that would have satisfied the energy requirements of the forest industry in the 1990s and beyond.

Inflation and energy costs worry Finnish paper-makers

Since the parliamentary elections of 1987, however, the left-right Coalition Government has declared a temporary moratorium on ordering a fifth nuclear plant – "the price of electricity is high and the availability-question is very serious. I cannot measure in money what it will mean to the forest industry if we don't commission a fifth plant by the beginning of next decade. All I know *is* that it will have a drastic effect on the industry's desire to invest (in Finland)," comments Mr Thomas Nysten, who heads Finnpap, a paper mill association which markets globally the paper of Finland's largest companies.

Mr Nysten, however, is not worried that his country's politicians will take the needed steps to help solve the countries economic problems – as well as ordering a fifth nuclear plant after the parliamentary elections of 1991.

An issue in the Finnish paper mill sector - as elsewhere in the industry - is the scale of mergers in the next decade. Mr Jukkä Harmälä, the new president of state-owned Enso-Gutzeit, one of the country's leading paper companies with group turnover of FM9.7bn in 1988, believes that most of the country's 10 or so largest paper companies will merge and dwindle down to four large groups.

Mr Nysten believes that companies may share costs and consolidate in bigger markets. An example of this was last June, when Nokia, Finland's largest quoted company, James River of the US and Mr Raul Gardini's Ferruzzi group merged to become a major force in the European tissue market.

On the environment front, Finland's paper industry in Finlandinvested FM2bn (at *1989 prices) to meet environ*mental obligations in the 1980s.

One recent example of such investments is Rauma-Repola, the engineering and forest group, which plans to build a FM1.6bn sulphate pulp mill in the town of Rauma.

The project, which will be completed by the end of 1992, involves a FM150m expenditure on waste water treatment and the collection of malodorous gases.

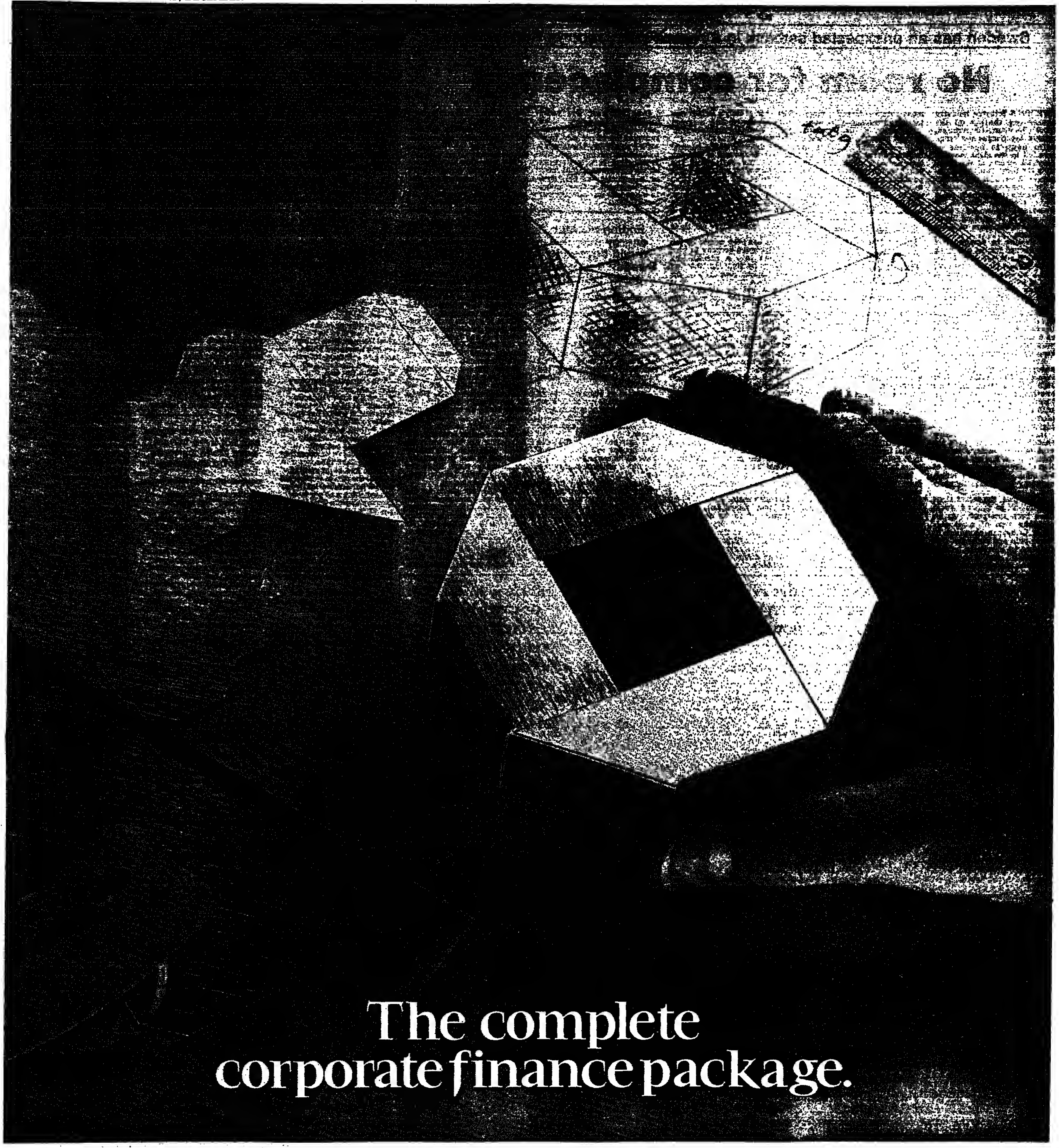
While western Europe will continue to attract over 70 per cent of Finland's paper exports, few will deny that the Soviet Union could turn into an important market in the future.

This became evident during President Mikhail Gorbachev's three-day official visit to Finland in October. Jaakko Pöyry, a forest consulting group, expects to sign by this year a letter of intent with the USSR to begin a feasibility study to determine the economic potential of some 200m hectares of Soviet forests in the north-eastern regions of Komi, Arkhangelsk, Volgoda, Soviet Karelia, Leningrad and Novgorod.

During a one to two-year period, Jaakko Pöyry will chart the infrastructure needs as well as the potential to set up a forest-based industry in that Soviet area that would include paper and pulp mills.

There are unique possibilities in the Soviet Union which has some of the world's largest unused forest reserves – around 900m hectares.

Enrique Tessier



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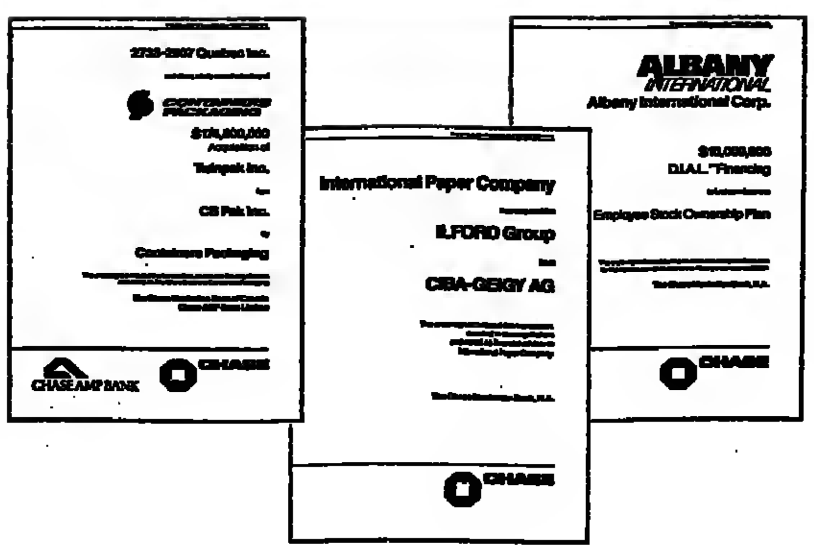

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CHASE

Sweden has an unexpected setback in a record year, reports Robert Taylor

No room for complacency

SWEDEN'S forestry industry shares fell sharply on the Stockholm bourse this autumn, mainly due to signs of a dampening down in business as revealed in the eight monthly financial reports of the country's big three forestry companies – Stora, SCA and MoDo.

This has come as a sudden and unexpected setback for a highly profitable sector of the Swedish economy that appeared to be growing inexorably after six years of boom conditions.

A decline in demand has been blamed for the one week shutdown last month by MoDo of its biggest plant at Husum; and Stora has also cut production of pulp.

Other Swedish companies have also followed suit in a move that appears to have aroused some suspicions inside the European Commission that the Swedish industry is acting as a cartel in trying to cut its pulp production in order to keep up pulp prices next year.

Even so, the clouds of autumn have not bsen dark enough to blot out the fact that 1989 looks like turning into another record year for the Swedisb forestry industry, with an export value of around SKr64bn, which is 9 per cent higher than last year.

Indeed, the forestry industry accounts for as much as 20 per cent of the country's income from exports. The net contribution of forestry exceeds that of any other sector of the Swedish economy including engineering.

In the past, the recent signs of a fall-off in demand would have been interpreted as an ominous sign of what was likely to happen elsewhere in world pulp and paper but this time many observers believe the Swedish market is over-reacting to the scaling down of many company financial expectations for the rest of the year.

Certainly, Mr Bo Wergens, director general of the Swedish Pulp and Paper Association, is convinced that the world forestry industry will continue to enjoy its longest boom in the post-war period although he believes there will be an easing off in demand during 1990, mainly due to an expected decline in the weakening market for paper in Britain, which still remains Sweden's biggest single market.

Sweden's forestry industry has been substantially restructured in the last three years

Over the past three years, Sweden has experienced a major restructuring of its forestry industry with the emergence of bigger and stronger companies.

There has been a substantial contraction in the number of pulp, paper and sawmills during the 1980s, but at the same time, higher output.

Furthermore, investment in the industry has risen from an annual figure of around Skr2bn in 1980 to nearly Skr6bn eight years later.

The large enterprises have been foresighted enough to safeguard their position inside the European Community where three-quarters of their products are exported by pursuing an aggressive strategy of mergers and acquisitions, exemplified by MoDo's recent acquisition of a paper sacks plant from Bowater Packaging in Britain and SCA's purchase last year of Italy's largest corrugated board and recycled paper products manufacturer Italcarta.

The dynamic of the internal market by the end of 1992 has shaped the outlook of the major Swedish pulp and paper companies. But Sweden's pulp and paper employers cannot afford to be complacent. Indeed, they are well aware that they are confronted by a serious domestic threat to the future prosperity of their industry.

This has been caused by the Government's decision to turn Sweden into a non-nuclear country by 2010 with the first two nuclear reactors due for shntdown in 1995-1996. It is hard to find any private sector employer in Sweden nowadays who still believes that tha Swedish Government is going to press ahead with its present closure programme. As many as six expert inquiries are at work at the moment examining the cost and consequences of going non-nuclear in energy resources.

Both employers and trade unions in pulp and paper, however, are in little doubt that the end of nnclear energy would devastate their industry in world markets and render it uncompetitive.

One study already published by Vattenfall, the country's state power board has estimated the price of electricity would have to rise by 70 per cent if nuclear power was phased out as intended.

It is estimated that half of Sweden's entire electricity supply now comes from nuclear power and so far nobody has come np with any realistic alternatives to the use of fossil fuels and hydropower, both of which are now controlled by strong environmental protection laws.

Over the past five years Swedish industry has increased its electricity consumption by 35 per cent from 40TWh to 54TWh. The forestry companies alone now use 19TWh.This is why there is strong agreement on both sides of the industry that they need to pressurise the Government to abandon its non-nnclear commitment.

Ending nuclear energy supplies would devastate Sweden's pulp and paper industry

At a time when the Swedish economy is running into serious difficulties mainly due to rising costs, a huge rise in industry's energy bills of perhaps treble their current level could turn out to be the final straw in undermining the country's international competitiveness.

"A rise in energy prices of that magnitude would wipe out the paper and pulp industry's whole profit," warns Mr Bernt Löf, Modo's chief executive officer.

"I can only hope that the Government will now concentrate all its resources on working out a sensible energy policy."

Clearly, this would involve giving up its present non-nuclear posture. But, so far, there has been no noticeable retreat by the Government from its existing commitment.

Ms Birgitta Dahl, the anti-nuclear energy and environment minister, has adopted an unyielding attitude with an almost fanatical enthusiasm. But paper and pulp employers are now among the most vocal in the business lobby demanding a much more realistic official attitude to Sweden's energy needs.

"We consider the government's energy policy to be unrealistic, inconsistent and harmful to Sweden's economy and prosperity," argues Mr Bo Wergens, director general of the Swedish Pulp and Paper Association.

"Sweden, which already displays major imbalances in its economy, cannot set out on its own along the path that the phasing out of nuclear power inevitably leads to."

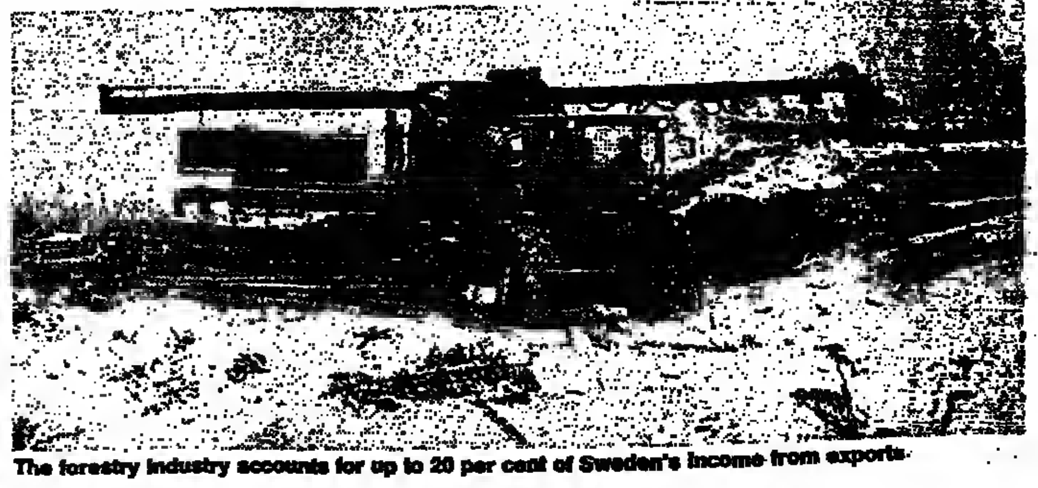
The final govarnment go-ahead on the first plant closures is due next year, so there is still the chance for industry to change the minds of the anti-nuclear politicians.

There is also an understandable worry inside the forestry industry at any further moves by the Swedish Government to increase taxes on energy and the environment.

Indeed, the companies would like to see a lowering of the tax pressure to help them ease their production costs, which in the present economic climate looks an unlikely outcome.

As in other sectors of the troubled Swedish economy, the companies are also worrying about their high unit labour costs due to low productivity, inflationary wage increases and substantial labour turnover and absenteeism.

But all is not gloom for the Swedish pulp and paper industry, whose employer association plans to celebrate its centenary in 1990 in fine style. Mr Wergens for one is convinced that his industry is well equipped to compete in the more internationalised pulp and paper market of the 1990s.



The forestry industry accounts for up to 20 per cent of Sweden's income from exports.

Case study: restructuring at MoDo

Profitable strategy

IT IS over a year and a half since MoDo, Sweden's third largest pulp and fine paper company, underwent one of the biggest industrial reconstructions in the country when it acquired its domestic rival Holmen, then Europe's leading newsprint producer, and also Iggesund, its pulp and board producing affiliate, in a SKr6.1bn deal.

The continuing buoyancy of demand for its products as well as the high production capacity at its plants over the intervening period has enabled MoDo to absorb its new acquisitions with relative ease.

Last year the company recorded a 19 per cent improvement in its operating profits to SKr2.19bn.

"In the first eight months of 1989 the company reported profits (after financial items) of SKr1.27bn, a 47 per cent improvement on the same period of 1988.

But MoDo also announced that while it expected its profits for the whole of 1989 would be better than last year, they would not be as good as originally expected because of the signs of weaker demand and rising production costs in Sweden.

The main reason for the 1988 restructuring at MoDo was to concentrate on a strategy to build the company's strength in those core areas of the market where it can compete most effectively with the big players on the world scene – fine paper, newsprint and journal paper, pulp and paperboard.

As the company's chief executive officer Mr Bernt Löf explains: "The structure of the new MoDo is based on the conviction that it is in pulp, writing and printing papers and fine bleached paperboard of high quality where our future lies."

Not only are those the sectors where consumer demand has been highest but it also happens to be where MoDo is in a position to utilise its existing strength.

Last spring, MoDo underlined its commitment to that core strategy when it decided to sell off Holmen Hygiene, its loss-making hygiene products and tissue paper business to the Finnish forest products group Metsa-Serla for SKr1.4bn.

As Mr Löf explained: "It would have called for heavy financial sacrifices by MoDo to build Holmen Hygiene up to the size and structure needed to maintain a leading position in the European tissue paper and hygiene products industry."

"He who plants a tree has not lived in vain," says Matts Carlgren, MoDo chairman

A major advantage of the MoDo mergers of 1988 has been to enable the company to streamline its managerial structure and establish a more effective marketing system.

It has also released potential for a cross-fertilisation between the company's four core business areas in products, process technology and research and development.

Over recent years the company has undoubtedly enjoyed an impressive performance in pulp production, mainly as a result of continuing high pulp prices although it only accounts for 12 per cent of MoDo's business activities. In the January-August figures pulp was responsible for 30 per cent of MoDo's total turnover and 50 per cent of its earnings.

Clearly a decline in the level of world pulp prices could make a severe impact on the company's overall future performance, which is why sensible precautionary action was taken this autumn to cut pulp production at MoDo's Husum plant, as a way of reducing the supply available to the market and thereby hold up the current price level.

The declared objective of MoDo's acquisition of Holmen and Iggesund was to spread the risks of Sweden's third biggest forestry conglomerate and lessen its dependence on pulp production.

Total group sales last year were accounted for by 27 per cent in fine paper, 23 per cent in wood-containing printing paper, 14 per cent in paperboard and 12 per cent from market pulp.

Mr Löf feels that in the past the company has been "too production orientated" and he now believes it needs to concentrate much more on the marketing of its products with a keener eye on the changeable consumer market, particularly in high-quality paper products. The restructuring has also enabled MoDo to make a more efficient use of its financial resources in research, product development and research and development.

However, MoDo does have its own internal problems, mainly as a result of the 1988 changes. Its sale of Holmen Hygiene has certainly helped to reduce its net financial indebtedness by nearly SKr1.5bn, but this still leaves the company with around 48 per cent net indebtedness.

Some observers feel that MoDo's interest payments and indebtedness are a handicap in the company's efforts to extend its activities inside the European Community. But this looks likely to be only a temporary difficulty. The company's chairman, Matts Carlgren likes to quote an old Chinese proverb: "He who plants a tree has not lived in vain."

During the next decade, MoDo is confident that the foresight of its core strategy will be triumphantly vindicated.

Robert Taylor

Stora, Europe's largest forest products group

Consolidation phase

IN ITS 702nd year, Stora is taking a well-deserved pause. After a hectic period of growth in the late 1980s, the Swedish forestry company is putting the finishing touches to its latest transformation.

The first occurred a century ago when Stora switched from copper mining to forest products. The most recent change began five years ago when Stora decided to reduce its dependence on pulp and timber. It expanded its operations in paper products from newsprint to packaging material and fine paper through a string of acquisitions that included Billerud and Papyrus.

Its strategy of creating a vertically-integrated forest products group climaxed in 1988 with the purchase of Swedish Match, which provided a range of building products, such as floorings, doors and kitchen furnishings.

The deal also made Stora the largest forest products group in Europe with a pre-tax profit of SKr 3.8bn on sales of SKr 34.3bn in 1988. It expects to maintain its position as one of the most profitable forestry companies in the world with cautiously predicted earnings of SKr 4bn in 1989.

Stora chairman and chief executive Bo Berggren, who has masterminded the diversification strategy, describes the company as now going through a consolidation phase. Merging the different corporate cultures of Stora and Swedish Match as well as co-ordinating some 15 product areas has proved a challenge, although the process is almost complete.

The last remaining piece of unfinished business is selling off some of Swedish Match's best known consumer products – matches, razors and lighters – to another concern. These are product areas with which Stora admits it has little experience and it believes they will do better elsewhere. What is left is a forestry company that in the opinion of most analysts is well-prepared to withstand tougher times ahead as competition increases among producers of pulp, paper and board.

One of Stora's chief strengths is that some of its products, such as building materials, are less sensitive to cyclical downturns than pulp and paper. While sales of flooring and doors are benefiting now from a construction boom in Sweden, Finland and West Germany, turnover is likely to remain steady, even if the boom subsides due to the renovation market. Stora is betting that the building materials sector will also be a prime beneficiary of synergy due to the integration of its timber operations with those of Tarkett flooring, Stora Kitchen and Swedoor.

In addition, the food packaging division, Akerlund and Rausing, promises to be a profitable area with its development of a plastic laminated can and a new system for packaging powdered food.

Stora believes that it can remain competitive through increased production efficiency

Although the growth in demand for pulp and paper is expected to slow down in the early 1990s, Stora believes that it can remain competitive through increased production efficiency. The inauguration last year of the giant PM11 newsprint machine at Kvarnsveden, near Stora's headquarters in Falun, gave it one of the industry's most advanced production facilities.

It will likely prove its worth in helping Stora, already the world's fourth largest newsprint producer, to achieve improved economies of scale.

Stora is carving out specialised markets for some of its main products. It is switching some of its production from market pulp to fluff pulp, which is used in paper-based hygiene products such as nappies. Its manufacture of fluff pulp also reflects Stora's emphasis on environmentally-safe products since it is produced without the use of chloride in the bleaching process.

The next significant step that Stora will have to take is broadening its international operations, especially in the EC, which accounted for 48 per cent of the company's sales in 1988. Its production of paper and pulp largely remains concentrated in Sweden, which could prove a handicap as competition intensifies with the arrival of the EC internal market and leave Stora open to possible trade disputes, especially on pricing, with the EC.

Stora two weeks ago acquired complete control of the Danish fine paper group De forende Papirfabrikker, establishing its first production base in the EC for this product. The deal also strengthened its European distribution network for fine paper, which has been regarded as inadequate, since it included two Danish paper merchants and affiliated ones in the UK and Norway.

It is expanding the output at its one EC-based pulp manufacturing unit at Celbi in Portugal from 360,000 tonnes a year to 600,000 tonnes by 1992 at a cost of SKr 4bn. The Celbi plant produces short-fibre pulp, which is rising in value.

Despite the Skr 18bn that Stora spent on acquisitions during the past five years, the company retains a strong financial position and good cashflow. This is partly due to the sharply rising pulp prices that have benefited Stora and other pulp producers during the past three years.

Financial costs will be further helped by the sale of the Swedish Match consumer products division, which could yield SKr 4bn. Stora's finances are likely to remain secure based on guaranteed access to timber and power. It owns 1.6 million hectares of forest in Sweden, which meets 30 per cent of its needs.

Stora's hydro-electric plants provide with it all the power it wants and makes it Sweden's fifth largest electricity producer. This could emerge as an increasingly important asset if Sweden proceeds with its plans to abandon nuclear power, which would sharply raise electricity prices. Nevertheless, Stora has prepared itself for finding new sources of funding by recently being listed on the London and Frankfurt exchanges.

John Burton, Stockholm

Big question for US suppliers

As new production capacity comes on stream, markets for US paper-makers are weakening. Profits could tumble, reports JAMES BUCHAN in New York

THE US pulp and paper industry faces a challenge. After three and a bit years of rising prices, record production levels and strong profits, paper-makers are seeing many of their major markets weaken.

The main question is no longer whether the business is turning down. It is: *how severe will the downturn be?*

The question is particularly acute because the industry, flush with cash, is increasing capacity. Old machines are being remodelled: a handful of entirely new plants are going up.

In some grades, such as newsprint and the coated papers used in magazines and catalogues, as much as 10 per cent in additional capacity could be in place next year. In linerboard, which is the board in boxes for packaging, about twice as much new capacity will open in 1990 as was usual in a typical 1980s year.

If the North American economy weakens badly in 1990, paper producers will be forced to slash paper prices to keep their expensive machines running. In that case, profits will tumble. On Wall Street, many paper companies are valued at prices lower than in 1987.

"The financial community has been very bearish," says Mr John Georges, chairman of International Paper. "The whole industry is being heavily discounted."

The 1980s have been a tumultuous decade for the industry. Even in a business notorious for its cyclical ups-and-downs, the 1980s have been a roller coaster. A severe recession in 1981-82 was followed by a frightening dip in 1985, when a high-flying dollar exchange rate attracted a heavy volume of imports into the US. The fall in the dollar exchange rate since then and a nicely growing domestic economy have set the stage for a recovery and then a boom.

The first signs of trouble came late last year, when prices began to weaken in newsprint, an industry which faces huge capacity additions. By the beginning of this year, the market for recycled newspapers – a key element in projects to cut waste in many US cities – collapsed. Prices for uncoated papers weakened in the summer.

In linerboard, the outlook has got progressively worse. An attempt to raise prices, by $30 a ton to $440, in May ran into unbudgeable resistance from customers. Some analysts, such as Mr Mark Rogers of Prudential-Bache in New York, believe that linerboard prices could weaken to as low as $350 a ton by the spring.

Jefferson Smurfit, the Irish group which built up a linerboard business in the mid-1980s when prices were as low as $250-$300 a ton, sent its own signal to the market in August when it announced that it would take $1bn in cash out of US linerboard empire, evidently to invest in Europe. Only in bleached paperboard are markets strong, largely because of an enthusiastic shift by soft drink producers into carton packaging.

Much will depend on the overall strength of the US economy. US paper consumption has tended to follow overall economic performance quite closely. Wall Street economists are divided in their forecast for Gross National Product in 1990 between an outright recession and slow growth of 1-2 per cent.

Mr Paul Stenke, an associate economist at the WEFA Group in suburban Philadelphia, says: "We'll see pronounced weakness in major grades, but no crash like in the early 1980s."

Mr Rogers believes that plant operating rates, which have to be high for papermakers to be able to maintain product prices, will fall next year to perhaps 92.2 per cent. This compares with the comfortable rates over 95 per cent in 1987 and 1988 but it still much better than the levels of the early 1980s.

Disguised by the cyclical swings of the 1980s, there have been some longer-term changes in the industry. The most obvious is globalisation.

In commodity grades, such as linerboard, market pulp and low-end papers, the industry has become genuinely international. Imports of paper into the US have been running at over 10m tons since the mid-1980s, or about 20 per cent of consumption. US exports, which run at about 4 per cent of paper production and 10 per cent in paperboard, are also important because they account for much marginal demand. Changes in demand overseas will rapidly affection production decisions even at an inland US mill.

The second element has been *heavy investment*. The US pulp and paper industry has a great advantage even in global commodity markets because of the abundant supply of relatively cheap wood fibre, above all in the south.

But to remain competitive, the industry has recognised it has to invest hefty capital sums to reduce labour and energy costs. International Paper, the largest US company, has led the way, regularly spending over $750m a year in the 1980s to maintain and rebuild its plants.

The third has been consolidation. Famous companies such as Crown Zellerbach, Diamond International and St Regis have fallen prey to take-over.

This autumn, Georgia-Pacific, one of a handful of wood-products companies that have integrated forward into the paper industry, announced a $3.5bn offer for Great Northern Nekoosa, the Maine-based pulp and paper company. If it is successful, the merger will create a new $15bn giant to rank with International Paper and Weyerhauser.

The Georgia-Pacific offer came as a surprise to Wall Street, because it suggested that at least one major company did not share their gloomy outlook.

Mr Rogers noted of Pru-Bache noted: "The basic attraction of most paper companies, including Great Northern Nekoosa, is the control of low-cost, world-dominant manufacturing facilities in an increasingly global industry.

"Even by paying up substantially relative to the existing market price, Georgia-Pacific expects to be able to buy these world class assets at a substantial discount to their real economic value.

"While GP recognises, as do we, that paper industry earnings will remain cyclical, we both believe that the market has gone overboard in discounting the current level of industry earnings."

JAPAN

Soaring demand

JAPAN'S PAPER industry has always kept its eyes firmly on the domestic market. While the majority of Japanese manufacturers, have been driven into overseas markets by an expansionist zeal, Japanese paper companies have ventured outside their national borders mainly in search of supplies.

Increasing demand at home and the move of many Japanese manufacturers abroad, however, has forced even the most conservative and slow-moving of the paper companies to move more aggressively in securing a wider range of sources, and eventually markets, in distant lands.

"The domestic pie is growing and to keep up with the greater demand we need a global strategy," says Mr Toru Yoshino, Managing Director of the Corporate Planning and Administration Department at Oji Paper, the country's largest paper manufacturer.

Japan is the world's second largest paper market in terms of output and imports still make up only about 4 per cent of domestic consumption. Demand has recently exploded, however, with the country's domestic economic boom and with a structural shift away from its former emphasis on heavy industry to a greater reliance on tha information services.

In the past, Japanese paper companies have looked abroad mainly for cheap raw materials and semi-finished products to be imported and processed in Japan. But with greater and more diversified demand, the higher costs of energy and production have made it highly uneconomical to manufacture at home. From now on production itself will have to be moved increasingly overseas.

Japanese paper companies are coming to terms with the reality that there is a limit to how much cheap supplies can be imported to be turned into higher quality products at home and that Japan is now reaching that limit.

The country's paper companies have no alternative but to transfer their production technology abroad and develop products overseas for export back to Japan.

The extremely high quality demanded by Japanese consumers, however, ensures that technology transfer to foreign prodnction bases will be a long-term process. Since the transfer of technology is not restricted to teaching technical skills, but involves overcoming cultural barriers, the most difficult task, in this respect, may be in convincing foreign production staff to raise their product quality to a level that is acceptable to Japanese consumers.

Newsprint is a case in point. The number of times newsprint tears is 100 times greater in the US than in Japan, claims Mr Yoshino. This is because Japanese newspaper companies are extremely demanding.

The difference in quality expectations in most other countries means that raising quality in foreign plants will be a delicate task. Oji is setting up a newsprint plant through a joint venture with Canfor, of Canada, and while Canfor does not make newsprint itself, officials are extremely sensitive to the possibility of a negative response in overseas plants to Oji's rigorous quality demands.

"If we try to tell them how to make newsprint there could be an emotional backlash," says Mr Yoshino.

The leading paper companies, noue the less, have a new-found urge for expansion outside their home territory and the growing feeling among industry leaders is that there is no turning back.

While imports from foreign manufacturers will have to overcome the high quality hurdle before they can win a greater part of the domestic market, overall imports to Japan will increase as Japanese companies step up production overseas.

At present, overseas productioo is still intended for export to Japan. An official at ona paper company that has actively expanded abroad says

Extremely high paper-quality is demanded by Japanese consumers

that Japanese paper companies have not moved into overseas markets to any extent yet because demand at home is so strong. But as mass production overseas increases, the large output from these facilities will have to find markets abroad as well – "our base-camp is Japan," says Mr Yoshino, "but sales overseas will come as the next step."

Another reason for paper companies to expand abroad is to follow the industries they supply into foreign markets. Already in 1986 Kanzaki Paper, a medium-sized manufacturer, purchased a US thermal paper plant.

Paper is often produced in close collaboration with hardware makers, as in the case of facsimile paper and it is no coincidence that Japanese paper companies have been pioneers in facsimile paper production just as the country's office automation equipment manufacturers are the world's preeminent makers of facsimile machines. As the machinery makers moved into foreign markets it was only natural for the paper makers to go with them and the trend is expected to further gather pace.

In the latest co-operative effort the top three copier makers, Fuji Xerox, Canon and Ricoh have developed recycled copier paper jointly with leading paper manufacturers. Although copier paper is particularly difficult to recycle, environmental considerations have made it necessary for the machinery makers themselves to make recycled paper more widely available.

But Japanese paper companies, facing a shortage of resources at home, have long known the value of recycling. The wastepaper recovery rate in Japan is as high as 50 per cent.

Aside from the lack of resources, criticism from environmentally conscious groups has put more pressure on Japanese companies to pay greater attention to conservation and environmental protection. The Ministry of International Trade and Industry (Miti), concerned about foreign criticism that Japan's dependence on foreign lumber is causing deforestation in some areas, has encouraged paper and pulp makers to plant trees abroad and has been studying other ways in which they can help protect the environment.

"We don't need Miti to tell us to recycle our resources," counters Oji's Mr Yoshino, "but it takes time." Cultural differences are a major hindrance to the smooth progress of plantation projects, he points out. Japanese companies are paying to plant eucalyptus trees in Thailand, but the local farmers do not have the organisation nor the business perspectiva needed to make the project viable.

Cultural differences are also likely to slow the process of establishing joint ventures with the Soviet Union. A group of Japanese companies have begun a feasibility study for a pulp and paper joint venture with the Soviet Union. The Soviet side has asked the Japanese to rebuild an old paper factory formerly owned by Oji Paper in what was at one time Japanese territory in Sakhalin. But the response in Japan so far has been cautious.

The Soviet Union is asking for a joint venture but the Japanese are suspicious about the Soviet interpretation of what a joint venture is. In the USSR there are no legal guidelines on joint ventures, nor is there a concept of interest rates, remarks an official at one of the companies involved in the feasibility study. There is widespread concern among Japanese companies that they will be putting in more than they will be getting out of such a joint venture.

In the long run, however, the Japanese will probably find some way of taking advantage of the vast resources available so close to their own market.

"We cannot ignore the existence of a vast source of raw materials," says Oji's Mr Yoshino. But any business transaction with the Soviet Union will have to have a very long-term perspective.

In the meantime, Japanese paper companies are on the lookout for opportunities in other parts of the world. While North America is a favoured location, due to its abundance of raw material and relative ease of access, Europe is becoming an increasingly attractive prospect with the coming of 1992.

Industry leaders expect more takeovers, joint ventures and technology licensing agreements with European companies to emerge over the coming years.

Michiyo Nakamoto, Tokyo

UK paper and board industry

Challenges ahead

THERE IS no doubting the strength of the UK paper and board industry's recovery in the 1980s. At the start of the decade it looked as though the industry was in terminal decline. Paper machines were closing at the rate of one a week and mills at the rate of one a month. A third of the industry was lost in the space of 18 months.

Yet in 1988, a year which marked the 500th anniversary of paper-making in the UK, the industry produced 4.8m tonnes of paper and board, a rise of one third from the low point of 1982. An air of confidence abounds in the industry. Paper-makers have taken the opportunity to update machines and build new ones, in order to compete in the ever-more global paper market. The industry has been restructured into fewer, larger and stronger mills.

However, paper-making capacity has not yet recovered to earlier peaks. And a worrying sign is that imports, which rose sharply when the industry was in the doldrums and the exchange rate was working against domestic producers, are still high at around 60 per cent of consumption.

But new investment is increasing production capacity sharply, with machines such as the Caledonian Paper lightweight coated machine in Irvine, Scotland, and the second newsprint machine at Shotton, North Wales, starting up this year, and more planned. Imports should start to fall again.

The seeds of the industry's problems were sown long ago. Mr David Peacock, commercial director of the British Paper and Board Industry Federation (BPBIF) singles out the UK joining the European Free Trade Association (EFTA). This allowed the Nordic countries to export paper to the UK, free of duty, in the 1960s.

The natural advantages these countries had with their vast forests meant that British paper mills were unable to compete. Arguably, the British industry had failed to invest in modern mills, with world-scale paper machines able to compete on a cost effective basis. Yet it would have been difficult at the time to persuade investors to put up the money for the enormous capital investment that would have been required.

The most encouraging part of the recovery in the 1980s has been the willingness by companies to invest in these huge machines. Smaller machines are being replaced by larger ones.

Mr Richard Brewster, chief executive of David S. Smith, the largest paper-making company in the UK, illustrates the point by highlighting the change in machine sizes over the last 20 years in the corrugated case materials market. "The market over the period has risen by 43 per cent and yet it is served by 24 machines now instead of 40 machines," he said.

He points out that his group is refurbishing a machine at its newly-acquired Kemsley mill which will be capable of producing 10 per cent of the UK's demand for corrugated case materials. In other words, 10 machines of that size could satisfy the UK's needs – clearly there is further restructuring potential with 24 machines running. "The new confidence to invest in world scale machines in the UK will help to reduce import market share," he says.

Ten machines could, similarly, supply the UK newsprint market as well, but in that sector there are only four machines in Britain, with two more on the drawing board.

Further evidence of the industry's recovery has been the willingness of foreign companies to invest in Britain, either buying companies or building machines themselves. One motivation for this is that companies want a production foothold within the European Community before the arrival of the single European market.

Both the Caledonian Paper mill and Shotton Paper mill are owned by Finnish groups. A proposed newsprint mill at Garlochan in Scotland is being partly financed by Abitibi-Price, the Canadian forest products group. And Reedpack is considering a new newsprint machine as a joint venture with Daishowa Forest Products, the Japanese-owned Canadian paper company.

Takeovers have been rife: Mr Peacock estimates that perhaps a third of the companies in the UK industry are foreign-owned, but these have perhaps a half of the production capacity.

Mr Stefan Kay, managing director of G-P Inveresk, part of Georgia-Pacific, the US group, says that "ownership has changed to people who actually wanted to be in the paper industry."

Some British groups have pulled out of paper-making. Bowater, for example, closed down its newsprint mill at Bridgewater, Ellesmere Port, and it took a US company, Consolidated Bathurst, to re-open it again.

However, this does not mean that other British-owned paper groups have failed to meet the challenges. Bowater sold the rest of its paper activities to a management buy-out in 1986 for £38m. That group, renamed UK Paper, made its return to the stock market barely 18 months later, capitalised at £108m and last month accepted a £263m takeover bid from Metsa-Serla, the Finnish forest products company.

Perhaps UK Paper's success encouraged the managers of Reed International's paper and packaging business to back a buy-out of the group in the summer of 1988 for a much larger £608m. So far, the buy-out has met the targets set by its bankers.

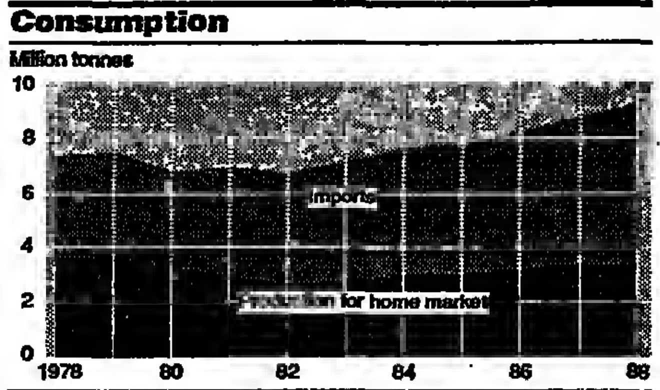
But the industry still faces enormous challenges if it is to become an even more significant force in world paper-making. Further investment in the larger, faster, more economic machines will be necessary, and much of this may come from overseas.

The recovery in the industry has been against the background of the longest period of continuous growth many can remember. The market is now entering a less buoyant period, and profitability is beginning to drop as cost increases are not being passed on to customers.

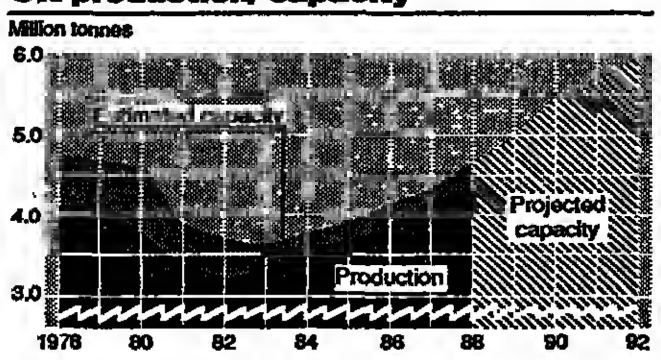
Although the industry is in much stronger shape than it was, it cannot afford to ignore the challenges if it is to remain profitable.

Maggie Urry

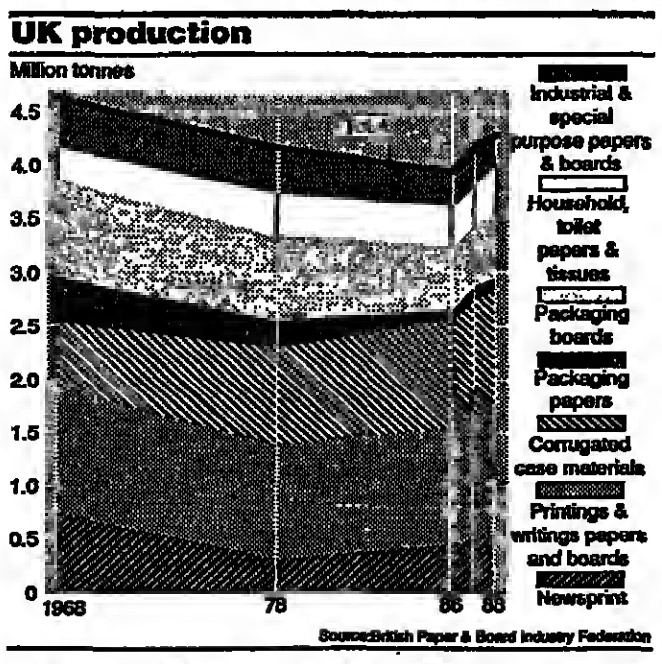
Consumption



UK production/ capacity



UK production



Source: British Paper & Board Industry Federation

Machine maker's success

Company profile: Hymac of Canada

MUCH OF the heavy machinery and electrical systems used in Canadian pulp and paper mills is imported or only partly manufactured in Canada.

But with the surge in industry investment since the mid-80s, spurred by better profits and environmental demands, several Canadian-owned equipment makers have expanded and are tackling export markets.

Most prominent is Hymac, a privately-held hydraulic machinery-maker, tracing its roots back to before the First World War.

Early in the 1980s, Hymac cut its long-standing technical ties with Finland's United Paper Mills and, backed by Quebec Government and financial support, began an extensive research programme to develop larger and more efficient refiners and other specialised equipment for high yield pulping.

Hymac has ploughed C$4m into developing a new two-stage refiner with a 32,000 hp motor and even larger units. The first was installed in the Port Cartier BCTMT mill of Cascades, in north-east Quebec. After minor modifications early this year, it is being used to produce fluff pulp at 280-320 tons daily and at motor loads up to 23,000 hp.

Hymac president Tom Krieser says the refiners' innovative features have been proven in commercial use and installations of the system will follow over the next few months.

Hymac is expanding its Montreal plant by 25 per cent and is installing Cad/Cam design and manufacturing capacity and numerically controlled production machinery. This programme will cost nearly C$5m.

Mr Krieser wants to compete further in high yield pulping equipment. Hymac's sales should reach around C$70 this year, up from $55m in 1988.

Hymac have supplied refiner systems to Ontario Paper, Millar Western Pulp and others.

Valmet of Finland now operates the old Dominion Engineering paper-machine manufacturing plant in Montreal. Most American, European and Scandinavian equipment makers are represented in Canada by branch plants or through machinery contractors in Quebec, Ontario and British Columbia.

Some have North American mandates for certain specialised products. Voith Brazil has been very successful with its paper machines partly because of exchange rate factors.

Several home-grown forest machinery companies are also prospering – one of the fastest-growing is Laperriere & Verreault Inc, of Trois Rivieres, the cradle of Canada's pulp and paper industry.

Robert Gibbens

Changes will further free-up an already dynamic, open market

EC a new investment arena

EUROPEAN paper-makers inside and outside the Common Market often say that removing non-tariff trade barriers after 1992 will have a relatively small effect on paper compared with many other industries. After all, they argue, the level of paper exports and imports in Europe is already very high and non-tariff barriers to trade are not really significant.

In addition, rapid market growth in Europa and increased exports to other regions, coupled with large capacity expansions and technological advances, have already made the paper industry more dynamic and more competitive, while the recent series of acquisitions and mergers have made it more concentrated and more international.

Each of these points is certainly valid, but perhaps there is still something more to be said. The free trade agreement between the European Community and the European Free Trade Association (EFTA), which has been a fact of life for many years, has already had a profound effect on the European paper industry and its markets.

This agreement has created a large, open market for paper in Europe and e more concentrated and competitive industry. (It also led to the formation of the European Paper Institute in 1979.) Many machines, mills and companies in the EC have disappeared, displaced by imports from large, integrated producers in the EFTA countries, especially Finland and Sweden.

As a result, there has been increased trade in paper not only from EFTA to EC, but within the EC itself and between Europe and other parts of the world.

Today, half the paper produced in Europe is exported from its country of origin, ranging from 80 per cent in the EFTA countries to 33 per cent in the EC countries. With imports, the situation is reversed, with half of the EC paper consumption being imported, compared with 28 per cent in EFTA.

Exports of paper from Europe to other regions have grown to well over 6m tonnes (12 per cent of total production) and today Europe is a larger exporter of paper to the world market than the US and Canada combined. Indeed, the US is now the largest single export market for European paper.

Demand for paper in Europe has also been increasing rapidly, spurred by sustained economic growth generally and strong end-use markets in packaging, office systems, publishing, printing and advertising. Some of this growth can be attributed to other industries becoming more aware of the single European market and using more paper and board for international distribution and advertising.

The increase in European demand for paper and the growth of international trade have stimulated a major expansion in papermaking capacity, mostly from new machines which have become larger, faster, more specialised, more sophisticated and more expensive.

In addition to building capacity, many companies have increased market share by buying capacity through acquisitions and mergers often across national borders. As a result the paper industry in Europe has become more international and, at the same time, more concentrated and competitive. With greater international trade, increased capacity and new grades of paper, the customer for paper has a wider range of choice than ever before.

As the prospect of a single European market comes closer to reality, the EC becomes more attractive as an area for investment in papermaking. For it is not only the EC paper companies which are expanding, merging or acquiring each other, although this is certainly happening as can be seen from the activities of companies such as Feldmühle, of West Germany, and Saffa, of Italy.

Half the paper produced in Europe is exported from its country of origin

The EFTA producers are also investing heavily in the EC with new machines and acquisitions, of which the bid for UK Paper by Metsä-Serla, of Finland, is the latest example. North American producers such as International Paper, James River and Scott Paper, have also been investing in Europe. We may soon see the first significant investment in Europe from the Pacific Rim countries, notably Japan and New Zealand.

So, with all of these developments in market growth, trade, capacity expansions and industry concentration, will the single market after 1992 be something of an anti-climax for the European paper industry? Far from it, for in my judgement the real changes to the industry and its markets have still to come.

Take the case of demand growth. As is well known, per capita paper consumption in Europe varies widely from 200 kg in West Germany to 85 kg in Portugal and is far below the 300 kg level of the US. The main reason for the creation of the single market is to stimulate growth and, therefore, paper demand should benefit from faster economic development, particularly in those countries which make up the European "sun belt."

Although there are no major non-tariff barriers to trade in paper within Europe, faster and cheaper cross-border transportation, greater standardisation and so on will encourage still more emphasis on exports and imports. Distribution costs will assume greater importance; merchants in Europe will tend to become less national and more regional and specialist.

The restructuring process in the European paper industry is just beginning. Considering the size of the European market and the importance of exports, European paper producers are not large in comparison with their counterparts in North America and the Pacific Rim.

Measured in terms of sales value, the top five paper companies in the world are all American, as are eight out of the top 10, with the other two being Japanese. Only three out of the top 15 are European, and all those are Swedish. Although 17 out of the top 50 paper companies are European, they account for only one quarter of sales. There is still plenty of scope for further concentration.

Although Austria has applied to join the EC, the large Nordic paper producing countries are unlikely to join, at least for some time. More and more these countries will balance their exports to the EC, their major market, with increased investment there to take advantage not only of the large market but local factors such as lower energy and labour costs and waste paper for newsprint.

The world outside the EC is also changing, as can be seen from recent developments in Eastern Europe, the rapid growth of the Pacific Rim countries and the development of the North American free trade agreement.

European producers will have to fight more to maintain their growth in paper exports against competition from established and new producers in overseas markets. Although imports into Europe from overseas have been rather static, recently we have seen imports of kraftliner and uncoated woodfree from Brazil and some coated paper from Canada.

Finally, although the paper business will grow and become more international with a smaller number of large producers, it will also become much more competitive as major producers fight for market share. In a business which is still cyclical with excess capacity in many sectors, what we have seen so far is only a preview.

In the words of Mr Gary Mace of Fletcher Challenge, the New Zealand-based paper group, speaking at last month's EPI General Assembly in Paris: "It is valid to raise the question as to how many paper companies with plants in just a single nation will survive in the longer haul."

David Clark

The author is Executive Director, European Paper Institute.

CANADA

Signs of a downturn in most sectors

CANADA'S pulp and paper industry, with 1989 shipments of well over C$20bn and including $15bn exports, is facing the worst downturn since the 1982-83 recession.

All the signs are there: discounting of up to 20 per cent on newsprint and many other grades of fine papers and coated papers, cuts in output, extended mill maintenance and permanent shut-down of older machines, declining profits and rock-bottom stock market values.

A sharp drop in US advertising volumes and an inventory run-down by US publishers have contracted demand for newsprint and many other papers. Overall advertising linage is down nearly 10 per cent year-to-year at some leading US newspapers.

Most of Canada's annual newsprint production of more than 10m tonnes goes to the US. Also, the Canadian dollar is up nearly 10 per cent year-to-year against US currency, so reducing the exchange gains for Canadian newsprint and coated paper producers. A return to a lower Canadian dollar must await a reversal in the Bank of Canada's high interest rate policy.

A debate is raging on the short and longer-term outlook for Canada's Northern softwood kraft pulp, and whether this strong long-fibre product should still be regarded as a basic international commodity subject to violent cyclical price swings.

Canada is the world's second largest producer of this category of pulp and the largest exporter. But signs of discounting in some softwood pulps *and in hardwood pulps* are already appearing and may become deeper next year and in 1991.

Overall, the downturn is expected to continue through 1991 in most sectors of the industry, though lumber is benefiting from stronger international demand and is helping to stabilise performance at the large integrated forest products groups, particularly in western Canada.

However, some factors suggest the downturn will not repeat the 1982-83 debacle. US policy is recognising the multiplying signs of recession. Canadian producers are also mostly over the hump of heavy capital spending for capacity expansions and their balance sheets are much stronger.

Several mergers have strengthened the industry's ability to weather the storm and some mill expansions have been delayed or cancelled in Canada and the US.

Also, American publishers' stocks of newsprint appear to be bottoming-out at 35 days' supply, even though Canadian mill inventories remain high. At some point, the publishers must begin buying for inventory.

Pulp and paper is Canada's largest manufacturing industry, says Robert Gibbens

Most eastern Canada contracts with the Canadian Paperworkers' Union expire on April 30, 1990, and bargaining will be tough.

The union will seek catch-up pay increases while the companies will point to declining margins and profits and the necessity to husband resources for environmental investment and getting into re-cycled pulp and newsprint production.

New American State legislation requires publishers to use specific percentages of re-cycled newsprint. Connecticut and New Jersey propose the most stringent rules as a method of reducing the piles of waste paper.

Pulp and paper is Canada's largest manufacturing industry and it makes the largest single contribution to the country's trade balance. In 1988, its net contribution was C$13.8bn.

The industry comprises more than 60 companies operating 145 mills from coast to coast and employs 145,000 people. Capital outlays for 1989 will total around C$6.5bn for modernisation and expansion to ensure that pulp and paper does not become a smoke-stack industry.

Total shipments reached 24.6 million tonnes on 1988 and are expected to hit 35m tonnes by 2000. Between 1987 and 1990, newsprint capacity will have grown 11 per cent to about 11 million tonnes.

Similar increases will come in printing and writing-papers, tissue products and some packaging products.

Canada-US free trade is reducing protective tariffs to zero over the next nine years for fine-papers and tissue-products. Basic commodity products have moved tariff-free for many years.

The fine-paper sector has been preparing for the change and is confident it can compete in a single North American market, while the tissue sector is being re-structured to produce on a regional basis as though the border does not exist.

For the first time, pulp and papers' impact on the environment, especially organochlorines in mill effluents and in some household products, has become a national issue.

The C$1.3bn Alberta-Pacific kraft pulp mill on the Athabasca river in northern Alberta, a Japanese-controlled project, has been the subject of high profile public hearings and could well meet some delays.

Companies in western Canada face capital spending in the hundreds of millions to meet new federal-provincial effluent standards by 1991-92. Central and eastern Canada producers face similar demands for capital.

Overall operating rates may drop below 90 per cent on average next year as new capacity comes on stream and the North American market moves into a slow-growth phase, partly off-set by steady increases in Asian demand for pulp and some paper products.

The Canadian mills' answer to excess capacity is to concentrate on greater productivity and quality. The traditional newsprint producers will be moving further into higher-value products and the whole industry will be become more global in its marketing approach.

Plain speaking on the environment

Personality profile: Adam Zimmerman

ADAM ZIMMERMAN, 62, the accountant who has guided the growth of Noranda Forest Inc into Canada's biggest forest products group over the past decade, is winning a reputation for plain speaking on the environment.

At times, as he criss-crosses the country making speeches as principal spokesman for the industry, he becomes a master of paradox.

While he worries about man's ability to survive on this crowded planet, he roundly attacks professional environmentalists for demanding that the pulp and paper industries achieve today what is still technologically impossible.

Mr Zimmerman, who likes to stress that he is politically non-partisan, berates politicians and policy-makers for their sketchy understanding of the realities of dealing with industrial pollution.

It is now possible to build pulp mills that are relatively odourless and operate without doing harm to the environment, he says. They can also provide the underpinning for many local economies.

"But government regulations to protect the environment must be put in attainable terms. For example, with the C$ 1bn Tasmanian pulp mill we planned, the environmentalists wanted perfection. But we cannot guarantee perfection. That is why we pulled out."

Noranda Forest takes in control of the giant MacMillan Bloedel integrated forest products group, based in Vancouver, the Fraser mills in Ontario and New Brunswick and the Maclaren mills and the Normick Perron lumber and panelboard business in Quebec.

Noranda Forest itself is a publicly-held subsidiary of *Noranda, the country's largest* resource group with a major mining and metals and oil and gas operations. Noranda itself is part of the Brascan group controlled by the Peter and Edward Bronfman interests of Toronto.

Mr Zimmerman has inherited the role of spokesman on many different issues because of Noranda's position in the industry, and he likes to sound tough and unsentimental as he parries the industry's critics from environmentalists to anti-government subsidy lobbyists and anti-free traders.

The Scandinavian mills are not much better than Canada's in environmental performance, he says. But the Swedes see competitive advantage if they can convince people that oxygen-bleached pulp is better than chlorine-bleached pulp.

"But if suddenly you know the addition of a few drops of iodine or something would make chlorine-bleached pulp dioxin-free, that argument would evaporate."

He says the industry gets harassment from "stump to the dump." But Canadians love their forests and "they want us to do things right. That's what we're going to do, with much more care and attention paid to our products."

He is chairman of Noranda Forest and of MacMillan Bloedel and vice-chairman of Noranda Inc; also a director of several other large Canadian companies. He joined Noranda in 1958 as assistant controller when it was solely a mining and metals company and rose to president.

Robert Gibbens

An optimistic entrepreneur

Personality profile: George Petty of Montreal

GEORGE PETTY, 56, e Montrealer who has built an international reputation for reviving old pulp and paper mills, was working as a vice president of pulp sales at International Paper Company in New York in 1957, *writes Robert Gibbens.*

"I was 'married' to IP and making US$22,000 a year," he recalls.

"Then Karl Landegger, the well-known American entrepreneur, asked me to plan marketing for two pulp mills he was building in Canada. He offered me US$50,000 and I took it."

Two years later he asked Mr Landegger to buy a small outdated paper mill in New York State. He got a blunt refusal.

No looking back

Mr Petty, built like a football player and quick-tempered, stomped out. Soon he borrowed some cash, and using the mill's equipment as collateral he mustered another US$12m to buy the mill and start refurbishing it.

He has never looked back. Soon he was rehabilitating an old IP speciality pulp mill in North Western Quebec. Then he founded Repap Enterprises Corp in Montreal, of which he is chairman and major stockholder.

Through Repap he has bought old mills in Canada and the US to create a group with C$2.7bn assets and the second largest coated paper producer in North America after Champion International.

He is also backing a new pulping process that uses petrochemical processing principles.

The commercial demonstration plant has started up in New Brunswick and Repap may exploit its potential with West Germany's Ferrostaal AG.

An entrepreneur by nature, Mr Petty has been up to the neck in debt several times. His coated paper project worth $C1bn in New Brunswick was saved at one point by a chance meeting that brought in BCE, Canada's largest conglomerate, as a financial backer and long-term paper customer.

His strategy is North America-wide. First, he converted two old New Brunswick pulp mills into a modern two-machine coated paper complex; concurrently he was doing the same thing in Wisconsin.

In 1986, he bought the big Skeena market pulp mill in Northern British Columbia for a trifling C$75m, and has spent more than that on modernisation.

The mill feeds the Wisconsin paper plant and also sells in North America and Asia.

Expansion

Finally, Repap bought the old Manfor pulp mill in Northern Manitoba and is modernising it for ultimate expansion into a major pulp and paper complex – though environmental clearance delays may put the schedule back.

In the past five years alone, Repap has invested more than C$2bn and is sometimes criticised for high debt. It has made two equity issues to the public since 1986.

In the first nine months this year it earned C$66.4m or $1.27 a share on sale of $868m. Growth may slow for a time, but Mr Petty retains his optimism about world demand for market pulp and coated papers.

Developments among paper-making machinery manufacturers

Rationalising of resources

THE NARROW sector of papermaking machinery production is undergoing the kind of ownership rationalisation forced by intense competition *which so many* larger production industries have had to exercise.

More than a half of all the world's paper machinery is made by three companies: Valmet in Finland, Beloit in the US and J. M. Voith of Germany. The trio's position in the global market has been strengthened recently through acquisition.

The most daring exponent of this has been Valmet, the world's biggest producer. After agreeing in 1986 to merge its activities with those of fellow-Finnish company Wärtsilä, Valmet has purchased no less than 11 companies making related machinery in Europe and North America. It has also just signed a joint venture in Japan with Sumitomo, a licensee of Valmet for 13 years.

Voith, the smallest of the three looked to be doing virtually nothing on the acquisition trail until it announced in August that it was merging its activities in paper machinery as well as fluid-flow technology with those of Sulzer of Switzerland.

This involved the Heidenheim-based company combining its paper machinery businesses with those of Escher Wyss, Sulzer's German-based activity making small paper machines. Voith Escher Wyss, as the new business is called, is under Voith management.

Beloit, based in the Wisconsin town of the same name, was family-owned – hy the Neese family – until it was sold to Harnischfeger Industries four years ago. Harnischfeger, the Milwaukee industrial group most famous for its P&H range of cranes, was joined two years ago by Mitsubishi Heavy Industries, which took a 20 per cent stake in Beloit.

Japanese paper machinery makers have always based their big machines on European and North American techology and Mitsubishi was a licencee of Beloit for almost 30 years.

Beloit has not been engaged in any acquisitions – "but that does not mean we are not interested in that," says Mr David Bringman, Beloit's vice president for corporate marketing. Much smaller equipment-makers and contractors have

Strong demand in recent years has benefited all types of machinery-makers

also been engaged in rationalisation. For example, in the UK, Simon Engineering, of Stockport, Cheshire, whose interests in the industry were centred on its subsidiary, Simon-Hartley, purchased last year Holder Pamac, a designer and builder of paper mills.

This restructuring *has* certainty not resulted from sliding demand. Sales of paper machinery have been exceptionally strong over many years – "the boom has been the biggest growth cycle we have known and has lasted longer than anyone expected," says Mr Jori Pesonen, president and chief executive officer of Valmet Paper Machinery.

Valmet, with net sales this year of about US$1.3bn, has an order backlog of $1.7bn. Beloit, which unlike Valmet also makes pulp machinery, has an order backlog of $1bn with total sales this year expected at about $900m.

Some form of cyclical downswing for machinery makers looks to have started, however. The world's paper industry is now loaded with production overcapacity and this is starting to reduce order intakes for *new machines*.

There are estimated to be about 8,200 operating machines in the world for producing paper, specialist paper and peperboard, according to Jaako Pöyry, a Finnish-based consultants for forestry products. This does not include the small hand-operated machinery still found in China and elsewhere. The US has the largsst installed capacity with more than 1,200 machines.

Many years of strong demand have benefited all types of machinery makers, including those in markets like Italy, Brazil and parts of Eastern Europe where supply of machines is dominated by indigenous producers.

The high cost of new machines, though, has tended to reinforce the market for modernising machines as compared to the purchase of complete new equipment. The market for new machines against modernisation is abont half and half in Europe and North America, according to Jaako Pöyry. Many machines are 30 years old or more, with typical rebuilds every 10 years or so. Such rebuilds are very common in Japan where high quality, continnous maintenance gives machines long life.

Some of the rise in machinery purchase-costs results from technical changes which have allowed machines to get bigger and faster. The biggest can produce paper in 10-metre widths at 1,000 metres per minnte. That means producing paper from one machine at the rate of hundreds of thousands of tonnes a year. A paper machine might cost $50m, even without ancillary equipment, and most plants requires at least two or three machines to be economic.

Electronic controls have becoming increasingly sophisticated. The latest trend is towards "mill-wide" control systems, incorporating not only machine controls for calibre, speed and humidity, but also tying the actual production system into stocks, packaging and delivery.

Many producers of papermaking machinery and ancillary equipment remain. However, the high cost of technical improvements in machines has

Many machines are 30 years old or more, with typical rebuilds every 10 years or so

heen one factor indncing rationalisation among machinery makers. Many special types of papers which were once prodnced in small volumes are now volume products made on big machines. This has also tended to erode niches inhabited by smaller makers of specialist machines as the larger machinery suppliers moved into these new volume markets.

Another major reason, though, has been Valmet's decision to move from a relatively weak position, compared with Beloit, to one where it is now a much fuller line producer than it was three years ago.

Unlike Beloit, Valmet does not make pulp machinery. Nor, unlike Beloit and Voith Escher Wyss, does it produce equipment for stock preparation. However, in pure papermaking machinery and all the ancillary equipment that goes with it, Valmet's long list of recent acquisitions has given it a tremendously hroad and strong range of equipment. Those acquisitions have helped Valmet almost triple its 1985 sales of $500m.

In 1986, it bought KMW, a Swedish company with a plant in the US specialising in machines for board and tissue. The following year it acquired Ahlstrom in Finland, which makes machines for board and specialty paper grades.

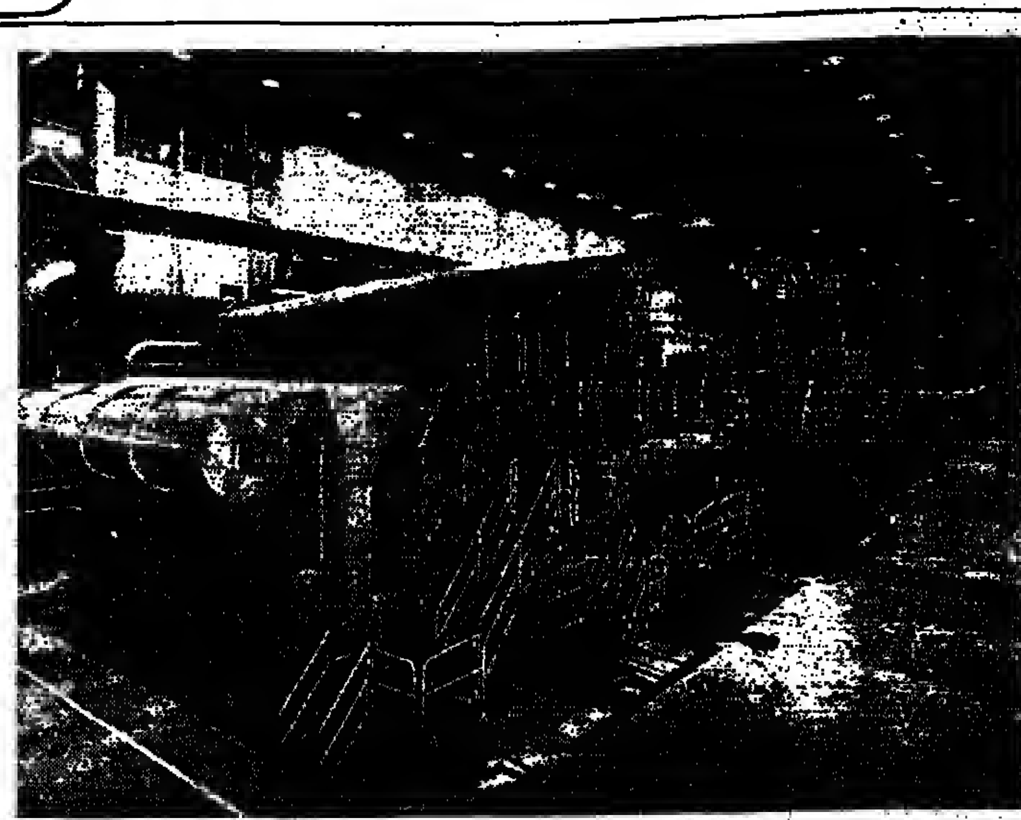
In ancillary equipment, Valmet has boosted its position in coating machinery. This has been done through the purchase of Rotomec in Italy in 1987 and Jylharaisio in Finland last year. Also, in 1988, it acquired IRT, a Swedish manufacturer of equipment for drying paper during the coating process.

Along with this have gone acquisitions in ventilating and heating systems. Valmet last year purchased Enerdry, a US company with a plant also in Canada, which specialises in air systems, ventilation and heat recovery equipment. The Finnish company's position in this prodnct sector was extended this year with the purchase of Brunnschweiler, an Italian company focused on air systems and heat recovery. It also bought Honeycomb, a US producer of componentry for air drying systems.

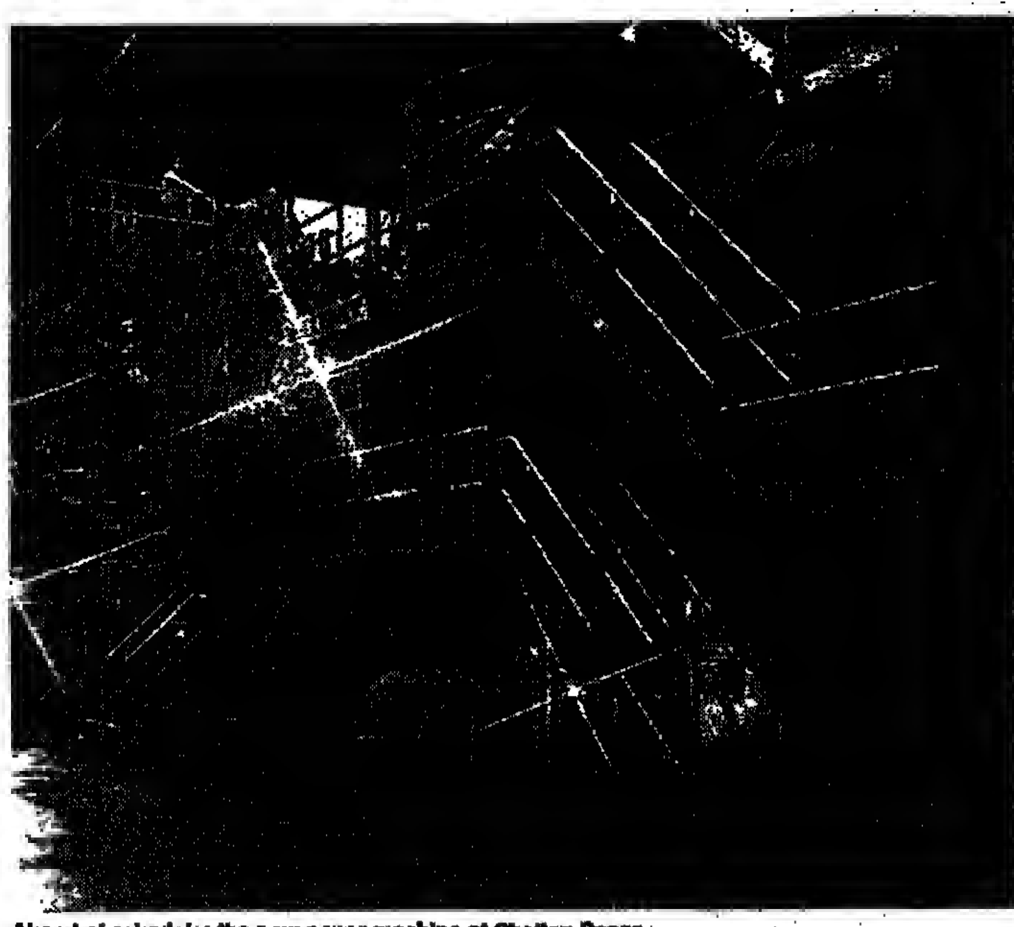
Two other purchases were Jylhavaara, a Finnish maker of finishing and converting equipment, and a conveyor systems business from Finland's Kone. In electronics and controls, main activity has centred on the purchase this year of Sensodec, a Finnish maker of condition monitoring systems.

The restless Valmet has this year set up a production plant in China for making paper machinery.

Nick Garnett



There are around 8,200 operating machines in the world for producing paper, specialist paper and paperboard. Above: a newly-commissioned Beloit Walmsley Bel Baie III newsprint machine, located at Hylte Bruks, Sweden. Beloit, the machine-maker, is based in Wisconsin, in the US.



Ahead of schedule: the new paper machine at Shotton Paper

Case study: investment in new technology

Keeping prices down

AT 8:17pm on August 23, a new paper machine started producing its first paper. The machine, at the Shotton Paper mill in north Wales, began its newsprint production six weeks ahead of schedule, and little more than two years after the first public announcement of the intended £120m investment.

One of the most important characteristics of the pulp and paper industry is the scale of investment involved. A new paper machine or pulp mill large enough to compete on a world scale can easily cost £100m, and possibly far more.

In order to be competitive, the extra capacity produced by such an investment is expected to make a significant difference to the market for which the production is destined.

And the cautious nature of bankers, who provide the finance for such developments, means that the go-ahead to build is often not given until profitability is getting close to peak levels. Then, the new capacity comes on stream just as the market is beginning to turn sour.

Yet these projects must go ahead for the industry to consistently improve its efficiency and technology.

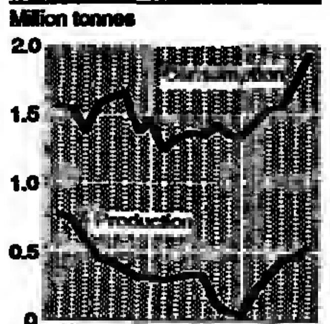
The new machine at Shotton Paper, owned by United Paper Mills of Finland, was the second built there. The first, PM1, was originally mooted in 1983, when the British newsprint making industry was still in the doldrums. Consequently, it was seen as a bold move. That machine opened in May 1985, and was able to take advantage of the rising consumption of, and prices for, newsprint as British newspapers increased their pages and new papers were launched.

That original investment has turned out highly profitable, with Shotton Paper making a pre-tax profit of £21.4m on sales of £74.5m in 1988. Although in today's more competitive climate this level of profitability may not be sustainable, it is an indication of the returns that can be made on these investments.

Mr Francis Davis, managing director of Shotton Paper Sales, the marketing arm of the company, says the first discussions within the company about building a second machine, PM2, started after the results of the first full year of operation of PM1 were known. These were good enough to encourage ideas of more than doubling capacity. In June 1987 these plans were announced to the world, and in October the definite go-ahead was given.

As far as the technology of the machine was concerned, PM2 was to be similar to PM1, though even in the short period since the first was built there had been significant technical advances. The second machine, the same width as the first, was essentially designed to run faster, thus increasing its capacity. PM2 has the capacity to make 230,000 tonnes of paper a year,

UK newsprint market



up from 200,000 for PM1.

It has a "four nip" press section, whereas PM1 has a "three nip" press section – in layman's terms the press section is a series of mangles which press water out of the paper. The extra "nip" means that as the paper leaves the press section it has had more of the moisture squeezed out of it, allowing a shorter drying section.

Another move was to introduce waste paper as 25 per cent of the pulp, for both the machines. Shotton Paper had concentrated on using the sitka spruce trees which it believes are ideal for newsprint. However, introducing an element of recycled fibre brings technical advantages – the paper has a smoother finish, and is thinner, giving more metres to a reel and saving reel changes in the publishers' press rooms. Furthermore, waste paper is often cheaper to use than virgin fibre.

Planning the big new machine was not just a matter of building it, though. Mr Davis says that work on planning supplies of fibre, both from trees and waste, was an early part of the process too.

Shotton had already bought some forest land itself and taken on the management of forestry for institutional owners, in return for harvesting rights. Other wood comes from Forestry Commission plantations. By the mid-1990s, Mr Davis says, a third of the mills' wood will come from forests owned or managed by the group.

When it came to waste, Shotton decided that it did not have the skills to organise its own collection on the scale that would be needed. It contracted two of the leading waste paper groups to supply the waste and set about investing in storage and de-inking facilities at Shotton as well as PM2.

Mr Davis says the use of recycled fibre has been well accepted by newsprint buyers.

Marketing the new paper was also planned long in advance of the start-up of the machine. The UK newsprint market is still to a great extent satisfied by imports, despite investments such as Shotton. Domestic producers can claim an advantage in being closer to users, and therefore able to respond that hit quicker to demand.

However, it is not easy to take market share away from other long-established producers, particularly as PM2 at Shotton is already running at a capacity equivalent to 10 per cent of the UK market. And this new capacity has come on stream just as price discounting in the newsprint market is rife, and extra tonnage is arriving from North American producers diverted from the market there.

Mr Davis says that a lot of the new capacity was pre-sold to huyers last year, taking advantage of the period when consumption was surging and there appeared to be a shortage of supply. His work is made easier by the heavy investment publishers have made in press rooms to run presses faster. They therefore require more consistency in the newsprint they use.

Mr Davis believes the greatest achievement of PM2 at Shotton, and of the paper industry in general, is that technological advances have kept down prices in real terms. He says that the price of newsprint is, in effect, the same now as it was 10 years ago.

Even in the short time between building PM1 and PM2 there were technological changes. That raised the question of how the industry would cope with the relatively rapid obsolescence of machines. The answer is that investments in new capacity must continue at an equally fast rate.

Maggie Urry

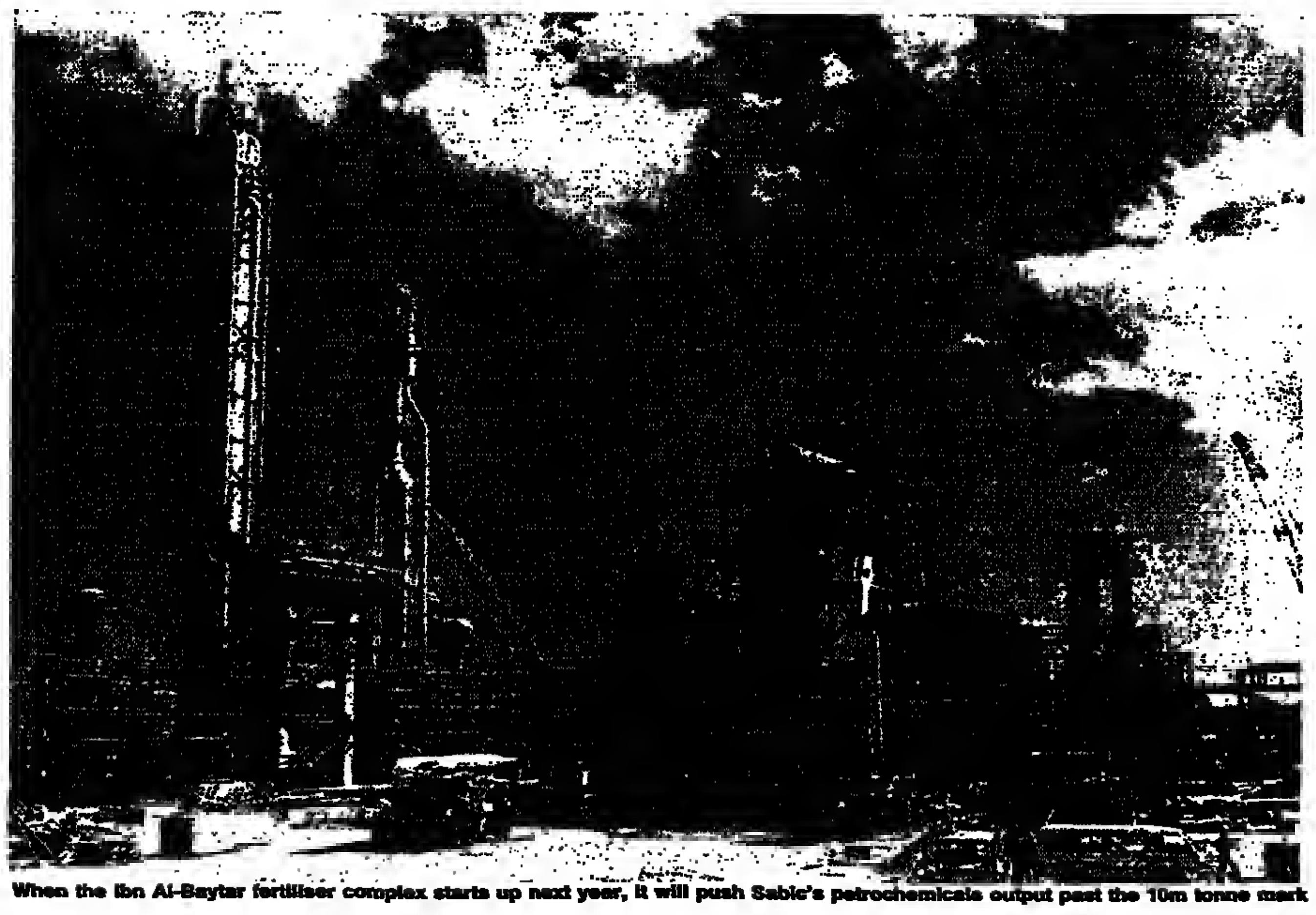
SECTION IV

FINANCIAL TIMES SURVEY

Seven years of oil-driven slump are finally giving way to a period of economic rejuvenation. Saudi Arabia's petroleum revenues are up, private sector confidence is high and even regional political tensions have eased. Andrew Gowers, Middle East Editor, reports

Saudi Arabia

Back in the driving seat



When the Ibn Al-Baytar fertiliser complex starts up next year, it will push Sabic's petrochemicals output past the 10m tonne mark

IF THE 1980s have often seemed to Saudi Arabia like a long dark tunnel, there are many people in the Kingdom who are now convinced they can see glimmerings of light at the end.

Over the past year, the economic indicators have started to point in a more promising direction than at any time since the oil-driven slump of the past seven years began.

Gross domestic product is growing at a steady rate of 3 per cent a year. Oil revenues are up by as much as 20 per cent over their 1988 level, thanks to prices that have held surprisingly firm in spite of rampant over-production by members of the Organisation of Petroleum Exporting Countries (Opec). The current account deficit is shrinking to a manageable level. Stock prices have staged an impressive rally, and even the real estate market — where rents tumbled by 80 per cent during the recession — is showing signs of life.

In the surrounding region, too, the political tensions that so preoccupied Saudi rulers for much of this decade have subsided somewhat. Iran and Iraq may have shown no sign of moving from their August 1988 ceasefire towards serious negotiations on a lasting peace, but there is no danger of renewed fighting for the next few years at least. The death of Ayatollah Ruhollah Khomeini may not have ushered in a reconciliation between Riyadh and Tehran, but Iran's revolutionary rhetoric against the House of Saud has lately lost much of its bite.

This has had a measurable effect on the Saudi rulers' conduct of foreign policy. With Iran, the carrot of an eventual improvement in relations is accompanied by the stick of determination to deal severely with any subversive activity on the part of radical Shia Moslem sympathisers. The message was clearly conveyed by the execution in August — in circumstances which have still not been adequately explained — of 16 Kuwaiti Shias who had been found guilty of causing small bomb explosions during the Moslem pilgrimage to Mecca.

Further afield, King Fahd has even felt emboldened to display a slightly higher political profile than is normal for Saudi Arabia in efforts to resolve Middle Eastern problems, notably Lebanon. His summoning of Lebanese MPs to a lengthy meeting on political reform in the Saudi mountain resort of Taif — and his insistence that they should not leave until they had reached agreement — was a significant departure for a country that normally shies away from confrontation of any kind. If the Taif accords subsequently foundered when the MPs returned to Lebanon, it was not for want of diplomatic effort on Saudi Arabia's part.

The atmosphere in the Kingdom itself can best be described as one of profound relief and perhaps a degree of surprise. Not only do Saudis feel that the worst is definitively behind them; they have also been pleased to discover that the Kingdom has come through it all remarkably unscathed.

The private sector, having retrenched and cut costs during the downturn, is now arguably in much better shape than it was during the boom of the 1970s. Most of the banks are back in profit, with the bad debt problem safely under control and an increasing number of errant borrowers paying up so as to avoid being blackballed as economic activity revives. The petrochemical industry has just enjoyed two years of glittering profits on the back of a surge in international market prices. Businessmen are showing an increased readiness to invest in local industrial ventures.

Most important of all, the oil industry, after battening down the hatches during the market turbulence of recent years, is gearing up for a big increase in production capacity that should put Saudi Arabia — with its upwardly-revised proven oil reserves of 252bn barrels — in pole position to benefit most from the expected steady expansion in demand for Opec crude over the next few years. The fact that Saudi Aramco, the newly-renamed national oil company at the centre of a reorganised Saudi oil sector, is preparing to spend $15bn on expanding capacity to 10m barrels a day by the mid-1990s is eloquent testimony to the Government's medium-term economic expectations.

However much Saudi power in the oil market increases in the next few years, it is most unlikely to be used to engineer a precipitous rise in prices like those that occurred in 1973-74 and again in 1979. Rather the Kingdom, whose Oil Minister, Mr Hisham Nazer, is constantly preaching about the convergence of interests between producers and consumers and the dangers of abrupt price swings, is looking for a phased expansion in output at prices that do no more than keep pace with inflation and maintain the market for oil.

The Saudi authorities are therefore preparing themselves for several years of unspectacular but above all manageable economic growth. This, they calculate, will enable them to settle down and get to grips with some fundamental structural and social problems.

The first and in a way most pressing issue is a hangover from the recession: the public sector budget deficit. Given that public spending accounts for 50 per cent of GDP, this remains the Kingdom's central economic problem.

The Government has at least stopped drawing on its foreign reserves to finance the deficit since last year. But it also appears to have concluded that substantial further spending cuts are out of the question, and it has not made another attempt to raise revenue by taxing expatriates after funking the issue last year. The search for a satisfactory way of financing the deficit — whether through a revamped programme of domestic borrowing or by other means — is thus crucial to consolidating the present recovery of economic confidence.

The second issue demanding urgent attention is water. There are increasing indications that the Kingdom's lavish programme of agricultural subsidies for the cultivation of wheat has led to a dangerous depletion of its underground aquifers. According to one authoritative report, if Saudi Arabia continues to use water at the current rate, it will have exhausted its primary aquifers by 2000. It is not clear that the Government has yet taken such warnings on board, although ministers are these days making increasing, if rather vague, references to the need to conserve water.

In the mind of the authorities themselves, a different concern appears to be uppermost: the need to create jobs for Saudis.

It may seem odd to mention this problem in the context of Saudi Arabia, with its relatively small (8m or so) indigenous population and its large army of expatriate labour. Finding employment for young Saudis is none the less a serious preoccupation because of the rate at which the population — and especially the educated population — is growing.

It is estimated that some 550,000 Saudi graduates will hit the job market in the next five years. In contrast to the 1970s and early 1980s, when most of them would have gone straight into cushy civil service sinecures, there is now no question of employing many of them in the public sector. Government recruitment has in any case been largely frozen in the past few years for lack of funds, and the emphasis now is on increasing efficiency.

The only answer, therefore, is to find work for Saudis in the private sector. But here, too, there is a problem: business, while paying lip service to the idea of employing more Saudis, has in practice been reluctant to put them to work in place of expatriates, partly because they cost more and partly because they often require expensive on-the-job training.

Until quite recently, it has also been difficult to convince Saudis themselves to "learn a trade". There are encouraging signs now that this is changing, though the traditional aversion to menial work is about as strong as ever.

One answer to the dilemmas posed by the job market would be to encourage more employment of Saudi women. By fostering the growth of two-income families, this might encourage more competitive wage rates and cut the bill for expatriate labour. However, it is an issue of the utmost religious and political sensitivity — and one that the authorities have been reluctant even to contemplate.

The Government therefore faces a complex task of social engineering in the next few years. More young Saudis will have to be persuaded to take unglamorous professional jobs at competitive rates of pay; more will have to be done to improve the business climate, not by means of government handouts and not just by forced programmes of foreign investment, but by updating laws, reining in the cumbersome bureaucracy and giving the private sector greater room for manoeuvre.

Saudi Arabia still has a desperate need to mobilise for domestic purposes the estimated $60bn in overseas assets owned by private individuals and companies. That implies an overhaul of its capital markets and a whole series of other measures to encourage businessmen to repatriate their capital and put it to work within the Kingdom.

It may be less dramatic a change than the transformation the Kingdom has undergone in the past 15 years, but it is no less important. Failure to deliver on this score could lead to domestic discontent, and possibly even disaffection, in a sector of the populace that the authorities have always been especially anxious to satisfy.

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Editorial Production: Khozem Merchant

King Fahd: the Saudi ruler has displayed an uncommonly high political profile overseas

Andrew Gowers reports on encouraging developments in the economy

A slow climb out of the trough

PART OF the engine may still be jammed, but there are distinct signs that the Saudi economic juggernaut is beginning to roll again.

Defying gloomier prophecies, the Kingdom's economy has this year enjoyed its second straight year of growth. Its trade surplus is increasing and the current account deficit narrowing. There has been a resurgence in demand for commercial bank credit and a mini-boom in industrial exports. Company profits have improved, and the stock market has responded enthusiastically. Even real estate prices have emerged from the doldrums to stage a modest rally.

The optimism should certainly not be overdone. So far the upturn is slow and extremely fragile, with gross domestic product rising 3.2 per cent last year and expected to show a similar increase for 1989, according to Sheikh Hamad al-Sayari, governor of the Saudi Arabian Monetary Agency (Sama), the Kingdom's central bank. Confidence remains vulnerable to the vicissitudes of government spending – which is still the main motor of the economy, accounting for 50 per cent of GDP – and many businessmen are still suffering from a renewed slowdown in payments on public sector contracts this year.

Nevertheless, perhaps for the first time since this decade's recession began, there are real grounds for hope that the economy is beginning to lift itself out of the trough in which it had been confined for much of the mid-1980s.

The main reason, of course, resides in the oil market, in which tha Sandis have been able to sell gratifying amounts of crude this year without knocking prices out of what they see as a reasonable range. The result is a forecast rise of as much as 20 per cent in oil revenues, which coupled with a continuing increase in non-oil exports and a stable level of imports could boost the 1989 trade surplus to at least $7bn. On this basis, western diplomats reckon that the current account deficit could shrink to as little as $4.7bn – its lowest level since the Kingdom sank into the red in 1983.

Government budget (SRbn)

	1982	1983	1984	1985	1986	1987	1988	1989
Balance	+1.3	-23.8	-44.9	-50.4	-62.5*	-52.7#	-35.9**	-25**

* 10 month period March-Dec 1986; # estimate; ** projected. Source: Sama, western sources

Current account balance ($bn)

	1982	1983	1984	1985	1986	1987	1988	1989
C/A balance	+7.6	-16.9	-18.4	-12.9	-11.5	-11.3	-7.5	-4.7

Source: Sama, western sources

The signs are that this is not just a temporary improvement in exports. If the forecasts are right about demand for Opec crude and Saudi Arabia'a chances of maintaining or enhancing its market share, it is quite conceivable that the Kingdom could have clawed its way back to a current account surplus by 1992.

"There is no balance of payments problem any more," said one western diplomat. Such a judgement is perhaps premature, but Saudi Arabia has certainly come e long way since 1987, when it was still drawing large chunks out of its once-mighty foreign reserves to finance an annual deficit in excess of $11bn.

Saudi policy-makers – and by implication businessmen in the Kingdom, too – nevertheless still face a problem of daunting magnitude: namely the Government's own shortage of cash. The budget has remained stubbornly in deficit since 1984 in spite of a sharp fall in state spending and more recent piecemeal efforts to reduce subsidies and boost revenues.

The Government constantly reiterates its commitment to maintaining current outlays on welfare and other services, and thus would seem to have little (apart from the sensitive area of defence) left to cut. Demands on public spending are, if anything, likely to increase in the next few years as the Government struggles to provide services for its rapidly growing population. However, it has yet to find a satisfactory and durable way of financing the shortfall.

This was not a pressing concern for much of the current decade. The authorities seemed content simply to dip into their reserves, delay payments to contractors, and wait for the eventual upturn. Only in 1987 did it begin to sink in that recovery might be a long time coming, and that the reserves – $140bn or more at their peak – would dwindle to a dangerously low level in the meantime if alternative means of funding, or closing, the deficit were not found.

The Government's first answer to the conundrum came last year, when it began borrowing on the domestic market by issuing so-called "development bonds". This was a big departure, not least because of religious sensitivities over the question of interest.

As an experiment, the exercise can be deemed at least a partial success. The Government deftly circumnavigated the interest problem by stating that the yield on the bonds in fact constituted a return on investment in the Saudi economy.

Since last year there have been offerings of SR1.5bn every fortnight. Although the precise quantity taken up has not been disclosed, Mr al-Sayari says bond sales have been sufficient to meet the Government's requirement of SR25bn to cover this year's projected deficit. The drain on the Kingdom's foreign reserves has thus been staunched; the Government is believed to have drawn only SR8bn in 1988 and has not touched them this year. No outsiders know how mnch Saudi Arabia has left, but estimates range upwards from $60bn, of which about half is reckoned to be fully liquid.

This does not mean, however, that the bonds represent a permanent solntion. The problem with the borrowing programmed hitherto is that only a relatively small proportion of the development bonds – perhaps as little as 25 per cent of the total – has been taken up by commercial banks as the Government intended. Bankers complain abont the yield: they worry about a mismatch between their short-term deposit base and longer-term bond investments; and a secondary market in the bonds, which might make them more attractive, has never really got off the ground.

The Government has therefore been forced to offload the vast bulk of its bond issues onto cash-rich state institutions such as the General Organisation for Social Insurance (GOSI) the Civil Service Pension Fund and the Public Investment Fund (PIF). In effect, it has been borrowing from Peter in order to pay Paul, and putting off the financing problem rather than settling it.

So the anthorities are clearly casting around for additional ways of financing the shortfall. One possible approach was signalled – with characteristic Saudi caution – by the signing of a $660m loan for the PIF with a consortium led by local banks. The purpose of the credit was not officially disclosed, but it was widely assumed to be a modest form of balance of payments or budget support.

If so, and given the participation of non-Saudi banks in the loan, it would count as the first direct foreign borrowing by the Government (as opposed to state-owned enterprises such as the airline Saudia) in 30 years.

Bankers were heartened that Saudi Arabia had chosen to dip its toe in the water in this way, and have been waiting for signs of another government loan. However, it has yet to materialise.

To an outsider, large-scale foreign borrowing would seem quite the most sensible course. It would tide the Kingdom over until oil revenues recover sufficiently to banish the deficits and build up new reserves. It might also help finance the multi-billion dollar investment programmes planned by state enterprises such as Sabic.

But there may well be other reasons why the Government is reluctant to go down this route. After all, straitened budgetary circumstances are about the only weapon that Mr Mohammad Aba al-Khail, the Finance Minister, can deploy when besieged by ministerial colleagues looking for more cash for their pet projects. Availability of foreign credit to the Government might open the gates to a flood of new demands from spending ministries.

If foreign borrowing is not a current option, that leaves only one serious alternative to further reserve drawdowns: a renewed effort to make the bond programme work. Mr al-Sayari told the Financial Times last month that Sama is working with the banks to try and activate a secondary market, perhaps by dividing the bonds into smaller units to make them attractive to the investing public. He admits that it is taking longer than Sama originally imagined.

The point is that this problem is not simply going to disappear. Even the more optimistic estimates suggest that Saudi Arabia will be living with budget deficits until at least 1994. Unless a way is found of financing the gap between now and then, the economy's engine will continue to sputter and wheeze for the foreseeable future.

The taste of things to come

SAUDI economic planners have not had an easy time of it in the past 10 years, their elaborate projections buffeted and ultimately rendered irrelevant by the swings in the oil market.

But when Saudi Arabia's new five year plan (1990-1995) is published some time in the next two weeks, it will merit more than passing attention from anyone interested in assessing the Kingdom's economic prospects.

If the brief guidelines published earlier this year are anything to go by, it is likely to be a cautious and sober document, eschewing suggestions of a dramatic economic upturn or a significant change of policy and concentrating on three main themes:

■ Reducing public expenditure and raising revenues, though without impairing the availability of services.

This, according to King Fahd's decree, is to be achieved principally by improving the efficiency of government, without "undesirable social or economic effects." Special emphasis is placed on the need to conserve water.

■ Harnessing private capital in domestic investment, allowing the private sector to undertake economic tasks currently performed by the government, and privatising state enterprises such as Saudi Basic Industries Corporation (Sabic) and the Petromin companies.

The planners call for a revision of regulations to enable private business to operate "with greater freedom and flexibility," and for the creation of a regulated capital market.

■ Creating jobs to absorb the large numbers of Saudis from the Kingdom's protracted baby boom who are now coming on to the employment market. Here, as before, the emphasis is replacing expatriate labour with Saudi nationals, especially in the private sector.

There is greater stress on the need for vocational training as opposed to academic education.

And for the first time, there is a controversial reference to the introduction of compulsory military service – a move which might ease immediate pressures in the job market, but which has hitherto been opposed by the chiefs of the armed services themselves.

AG

PETROLEUM SECTOR

Riyadh's assertive new mood

SAUDI Arabia has come a long way since the California Arabian Standard Oil Company struck oil at Well No. 7 in the Dammam Dome more than 50 years ago. With a quarter of the world's petroleum reserves, Saudi Arabia enters the new decade full of confidence in the world energy market and in its own dominant position among producers.

Gone are the days when the Kingdom was prepared to act as a "swing producer" within the Organisation of Petroleum Exporting Countries (Opec), adjusting its output to keep the oil market in equilibrium while the other exporters took advantage where they could. Today Saudi Arabia is determined to keep its 25 per cent share of actual Opec production. "It is time for us to take, instead of giving," says one senior Saudi oil industry official in a telling comment on the new, assertive mood in Riyadh.

Like other producers, Saudi Arabia has been pleasantly surprised by the recent strength of demand from oil consumers. Prices have held up in spite of the tendency of Opec members to produce above their agreed quotas.

Saudi Arabia is also is convinced that several Opec states are reaching the limits of their production capacity, leaving the way clear for well-endowed exporters such as Kuwait and Saudi Arabia itself. Saudi officials believe that Iraq is exaggerating its production capacity and that Iran's technical and financial difficulties are worse than generally supposed.

"I foresee a time very shortly when the ceiling and the quotas will be totally irrelevant," said Mr Hisham Nazer, the Saudi Oil Minister, after the November Opec meeting in Vienna decided to increase the overall production ceiling to 22m barrels a day for the first half of 1990. That compares with the previous ceiling of 20.5m b/d, although actual output has been closer to 23.5m b/d. The new Saudi quota is 5.38m b/d.

Saudi Arabia is positioning itself to make the best of its oil strength in the next decade and beyond, and it is pursuing several strategies.

■ Restructuring: the reorganisation of the Saudi oil industry and its leadership is well advanced. King Fahd is actively involved in oil policy, but oil industry executives point to important changes in management methods since Mr Nazer took over from Sheikh Ahmed Zaki Yamani in 1986. The technocratic Mr Nazer has overseen a complete transformation and clarification of the oil administration.

The Saudi Arabian Oil Co, established a year ago, run by its board of directors and the Supreme Council, and known for historical reasons as Saudi Aramco, is the national oil company responsible for crude oil production. It still co-operates with the four old Aramco partners, Exxon, Mobil, Chevron and Texaco. The General Petroleum and Minerals Organisation (Petromin) has been slimmed down and put in charge of separate affiliates, including Samarec (refining), Luberef (base oil refining) and Petrolube (lube oil blending). The idea is for these organisations to be commercially run; they may eventually become candidates for privatisation.

Those involved in the oil industry believe it is now more efficient than before, partly because Mr Nazer is better at delegating responsibility for day-to-day decisions to his appointees. Japanese trading companies buying oil find that business is conducted more rapidly, although increased efficiency can mean tougher negotiations.

■ Expansion of capacity to meet long-term demand: extra foreign technicians have already started arriving in Saudi Arabia's Eastern Province to help carry out a 10-year expansion programme. The plan is to raise sustained production capacity from about 7m b/d now to 8.5m in 1994, and 10m b/d in 1998 – the level of actual production in 1980 and 1981.

It could cost some $15bn in capital spending and a further $15bn-$20bn in additional current costs over the next decade. Saudi Arabia will demothball spare capacity, restore gas-oil separation plants, drill new wells and expand its pipeline network. Gathering all available gas is regarded as particularly important for the future of Saudi industry. At the same time Saudi Arabia is likely to restructure its oil industry towards lighter – and more popular – crude oils. Export capacity is already 14m b/d and will increase further.

■ Exploitation of new discoveries near Riyadh: high-quality oil and gas finds this year south-east of the capital – outside the old Aramco concession area in the east – seem likely to help fulfil Saudi demand for light, low sulphur crudes and gas. One estimate puts the new reserves at between 6bn and 8bn barrels of oil, on top of the existing total proven reserves of 252bn. Exploitation of the gas could release for export some of the fuel oil and crude oil now used for 60 per cent of power generation.

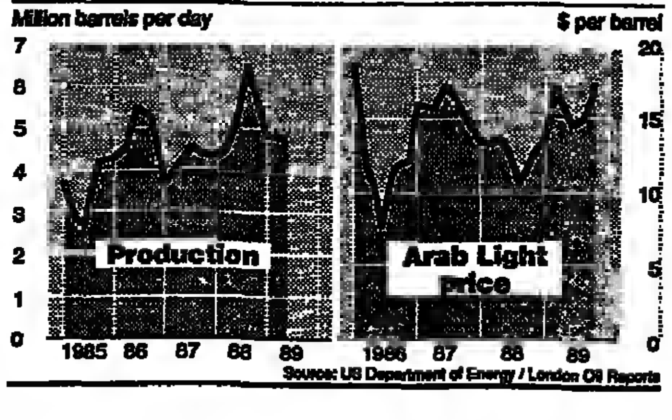
■ Downstream purchases: Saudi Arabia is determined to maximise added value and secure further outlets for its crude, following the purchase of a $800m half share in three Texaco refineries and associated petrol stations. The deal accounts for 600,000 b/d out of some 4m b/d of crude exported by Saudi Arabia. Saudi talent spotters are on the look-out for purchases in Europe and Japan, and officials say they are delighted with the Texaco joint venture as an outlet and as investment.

In short, Saudi Arabia is well placed to benefit from the world's future dependence on Gulf oil. "The coming decade will be good for the oil business," Mr Nazer said in London recently. "Ultimately it is not a question of Opec riding roughshod over market forces, but of the growing reliance of the world's oil demand on supplies from Opec."

Victor Mallet

The Gulf city of Jubail, one of two main centres using hydrocarbons for industry and exports

Saudi oil



Source: US Department of Energy / London Oil Reports

Andrew Gowers on how domestic investors are increasingly finding government incentives too tempting to ignore

State's generous bait finally lures the private sector

AT LONG last, Sandi Arabia's private sector appears to be putting serious money where its mouth is.

After years of government exhortations to take up the slack in the economy left by the drop in state revenues, the Kingdom'e businessmen are finally preparing to meet the challenge by undertaking substantial investments in local industry.

The past 18 months have seen a flurry of private sector activity, including:

■ A large number of applications to the government for loans to build new plants and expand existing ones, in areas as diverse as food processing, refrigerator assembly and float glass manufacture. The pace of applications has almost certainly accelerated since last year, when construction work began on around 70 new and existing factories and the private and pnblic sectors together invested around $550m in industrial projects.

■ An upsurge in exports in which Sandi companies have sold air conditioners as far afield as China and cornered the entire Gulf Co-operation Council market in aluminium can ends. Industrial exports other than petrochemicals more than doubled last year to $740m. This may be a tiny proportion of the Kingdom's total trade but is none the less impressive given that exporters have started from scratch since the beginning of the decade.

■ The finalisation of plans for construction of a 214,000 tonne aluminium smelter in the Red Sea industrial city of Yanbu. The project, a joint venture between Alujain, a newly-created subsidiary of the Alireza group's Saudi Cable Company, and a group of foreign companies inclnding Pechiney of France and British Aerospace, is slated to cost $883m and is thus by far the Kingdom's largest private sector investment. A decision to go ahead, however, depends on the Government; at the time of writing a four-man ministerial committee was still mulling over the terms of a possible 10-year electricity supply contract for the smelter.

■ Increased interest in investing in downstream petrochemical projects drawing on basic prodncts from Saudi Basic Industries Corporation's network of chemical plants in Yanbu and its Gulf counterpart, Jubail.

■ The creation of several joint stock companies by some of the Kingdom's big business families with a view to harnessing private investments in industrial ventures and broadening the Saudi stock market.

■ A broadening of the offset programme associated with Saudi defence purchases, with UK companies now looking for a wide range of joint venture opportunities in the Kingdom.

"Since last year, there has been a noticeable upturn in the confidence of the private sector in investing in industry," says Mr Abdul Aziz al-Zamil, Saudi Industry Minister. "There is a whole different mood."

Part of this, no doubt, reflects a general perception that the oil market is fundamentally improving and the Kingdom's economy is through the worst. But there is more to it than that. This time – in contrast to the many false dawns witnessed by Sandi businessmen in recent years – genuine confidence appears to be seeping back, to the point where businessmen now feel ready to make plans for the future and to repatriate money in order to carry them out.

Equally important, Sandi companies are now in much better shape to profit from the relatively modest commercial opportunities now on offer than they were during the mega-boom of the 1970s and early 1980s. The best of the companies that survived the subseqnent deep recession have cut costs, revamped their management structure, and focused their attention firmly on developing marketing strategies for what is bound to be a highly competitive market in the 1990s.

In the process, a new generation of articulate, modern-minded Sandi entrepreneurs has come to the fore – people who are less inclined to look to the government for free handouts, more interested in battling it out among themselves.

"We have a mnch better equipped group of people for business than in the 1970s," says Sheikh Suliman Olayan, the veteran Sandi businessman and international investor. "We also have a better informed consumer."

With recent traumas behind it, the Saudi business community has e number of enticing considerations in mind. First is the changing shape of the domestic market itself. The demographics speak for themselves: e population growing at a rate of up to 3.5 per cent a year, 60 per cent of it under the age of 21; a rapidly-rising number of households as young people break away from their extended families; and an education explosion that has brought with it greatly enhanced consumer awareness.

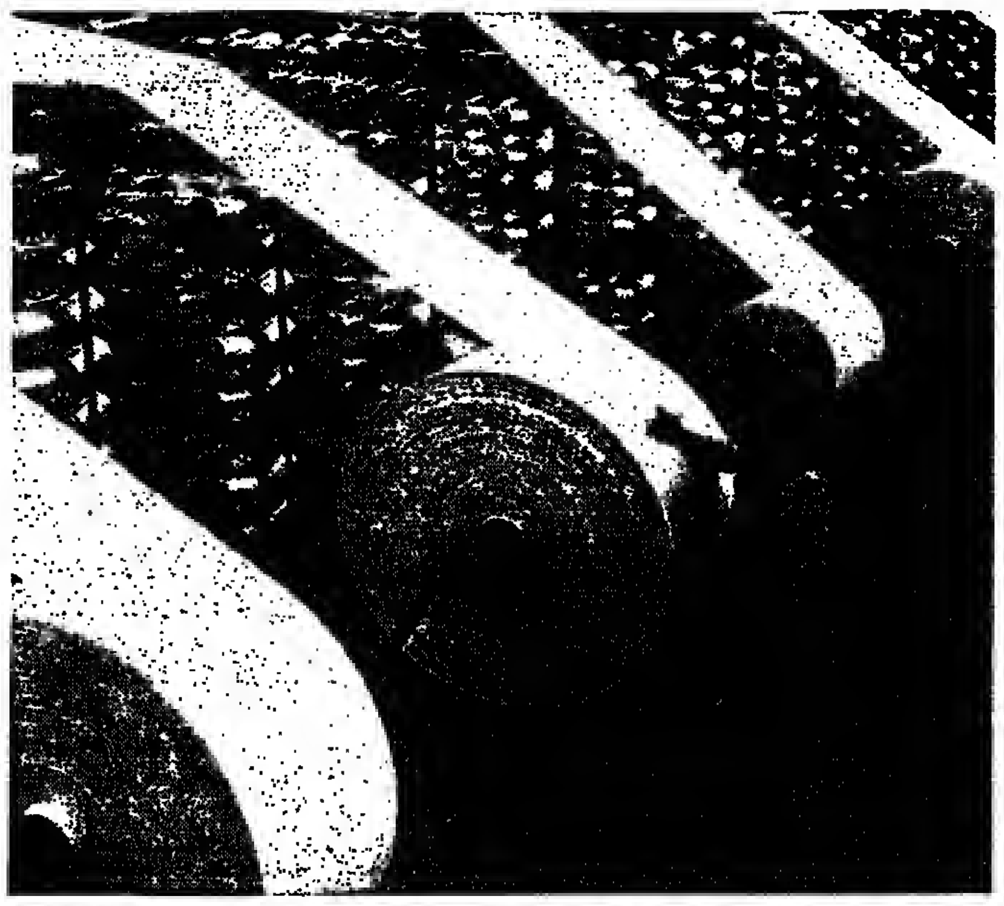
Retail outlets and service industries are responding by becoming more sophisticated, as any visitor to one of the Kingdom's numerous shopping malls – replete with supermarkets, fast food outlets and other relatively recent arrivals from abroad – will testify.

Beyond that, Saudi industrialists are looking to the wider market totalling 16m people that is being constructed as part of the six-nation GCC's halting progress towards economic integration. Increasingly, as the customs and tariff barriers come down, Seudi businessmen are viewing the whole GCC as their oyster.

Unlikely as it may seem, some have been venturing still further afield in the past few years. Exporting may bring marginal profits, bnt it has allowed some manufacturers to maximise output and avoid the bothersome task of laying off staff during the recession. Now they appear to be developing a lasting taste for export markets, whether in the Middle East, Asia or Europe.

One example is the National Factory for Can Ends, an operation jointly owned by Metal Box and four big Saudi merchant families and based on the Jeddah industrial estate. Using a country which is the world's biggest per capita market for soft drinks cans as a launching pad, Nafcel last year conquered the entire GCC market and has begum exporting sizeable quantities to Europe.

Other notable export successes have been chalked up by the group of companies owned by the al-Zamil family in Saudi Arabia's Eastern Province. Run by 10 of 12 brothers (the other two are in government), the Zamil group has in the past two years exported plastic coat-hangers to Japan, mirrors to Australia and pre-engineered steel buildings to Malaysia.



Saudi plastic bag factory: genuine confidence appears to be seeping back into the private sector

Almost all Saudi companies have been helped by a transformation in the economics of manufacturing that has taken place during the recession. The cost of expatriate labour plummetted as companies slashed wages and brought in employees from countries like Sri Lanka who were prepared to work for less.

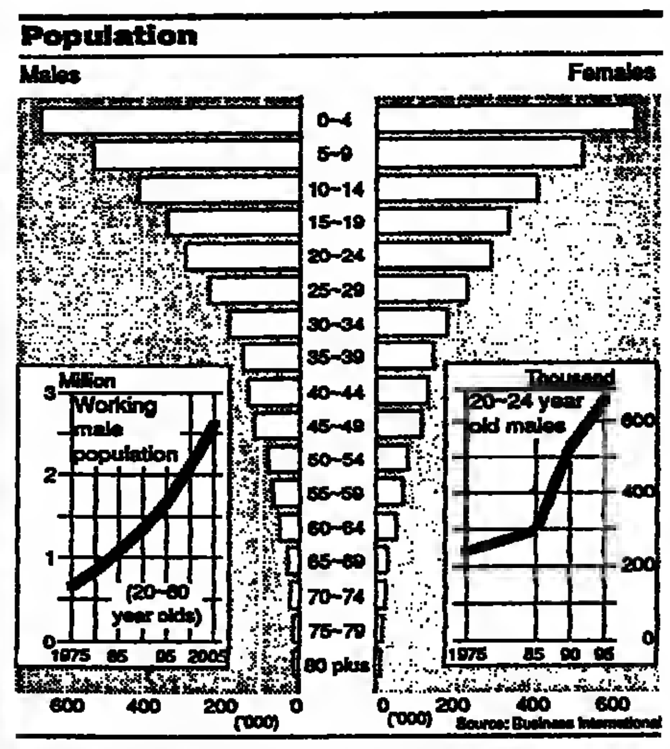
The decisive factor in prompting businessmen to invest, however, is probably the attitude of the Government. The incentives for industrial development have never been less than generous, ranging from soft loans to cheap land and subsidised utilities. But they were not sufficient during the recession to persuade the private sector to bring large amounts of its overseas assets home and put them to work for King and country.

Now the Government has gone further by offering increased tariff protection to local production, amounting to 20 per cent when an industry fills at least half of local demand. This is e substantial bait that is encouraging more and more of the merchants to shift from trading to local manufacture. The multinationals that in the past would strike np relatively simple agency deals for their products with the big families are being lured into setting up industrial joint ventures.

Another sign of a more accommodating approach by government has come from the petrochemicals sector. Saudi businessmen used to complain long and loud that they were being deterred from investing in downstream plastics plants because Sabic, the 70 per cent state-owned petrochemicals giant, insisted on charging them European prices, inclusive of freight, for its products. Bnt earlier this year, Sabic changed its tune and offered them a better local price. Once again, the economics of downstream investment were substantially enhanced.

One of the aims of the growing number of joint-stock companies being created in the Kingdom – such as the National Industrialisation Company and the Saudi Industrial Development Company – is to focus on such ventures. They are driven by an awareness that the sums involved may require business families to join forces and bring in capital from the investing public. The Government, keen to foster wider share ownership and nltimately bent on prising open the tightly-held merchant companies, is backing this idea all the way.

"Our ministry's role is to encourage all the successful family companies to turn themselves into public shareholding companies," says Dr Abdulrahman al-Zamil, deputy minister of commerce, pointing to his department's success in persuading the super-rich Al-Rajhi family to float its money-changing operation on the stock market in the process of changing itself into a bank.



What all this goes to show is that as private businessmen become more involved in the productive side of the Saudi economy, their relationship with the Government is undergoing subtle changes.

More open criticism is to be heard in the private sector of the state's control of large swathes of commercial activity; of the red tape which continues to impede trade and investment; of the under-developed state of commercial law; and even of some of the royal family's business dealings.

Some businessmen, like Mr Olayan, are calling on the authorities to deliver smartly on their promise to sell off another chunk of Sabic to the public as a foretaste of a more fully-fledged privatisation programme.

There are signs, moreover, that the Government – at cabinet level, if not always at the level of the bureaucracy – is listening. But in response, it has its own agenda. Given official anxiety to create jobs, for example, there is likely to be more emphasis on increasing the number of Saudis working in the private sector – n goal to which businessmen pay ample lip service, hnt which they have been slow to implement because Saudis cost more than expatriates to employ in middle or lower-grade jobs.

In a sense, wbet this amounts to is a new form of dialogue between two unequal power centres: a public sector that controls the essential levers of the economy but needs to enlist the co-operation of business in the next phase of Saudi development; and a private sector whose new-found confidence is more than purely commercial. How the interchange develops will be of critical importance to the shape of the Kingdom in the 1990s.

The petrochemicals industry continues to confound the sceptics

Cause for mild celebration

AS THEY look back over the past couple of years, the men who run Saudi Arabia's burgeoning petrochemicals industry can be forgiven a moment's self-congratulation.

The recent performance of Saudi Basic Industries Corporation, the company created by the government from scratch since 1976 to add value to the Kingdom's abundant hydrocarbon resources, has been nothing short of remarkable.

Sales revenues from steadily rising output of a growing range of basic petrochemical products increased by a multiple of more than two and a half between 1986 and 1988. Net income jumped 16-fold in the same period, and last year alone more than trebled to SR3.68bn.

With the completion of a first $10bn phase of investment, the 70 per cent state-owned Sabic is now making a not insignificant contribution to the Kingdom's trade balance. More than that, the company's bosses tell themselves that it has truly arrived as a world-scale enterprise: ranked second in the world by the industry publication Chemical Insight in terms of profitability growth and among the 500 largest non-US corporations by Fortune magazine.

Luck, of course, has played as much of a role in Sabic's recent bonanza as its managers' foresight, since the coming on stream of the last of the company's 15 plants — many of them joint ventures with American and Far Eastern conglomerates — just happens to have coincided with a sustained surge in world petrochemical prices.

But they deserve credit for perseverance and cost-cutting during the tough times of the mid-1980s. And their success feels that much sweeter because it flies in the face of what used to be almost overwhelming scepticism from the international chemical industry about Saudi Arabia's ability to carry off such an ambitious industrialisation programme to diversify from exclusive dependence on crude oil exports.

As Mr Ibrahim Salamah, Sabic's vice-chairman, recalls: "There were many who doubted Sabic would succeed. They told anybody who would listen that Sabic was an aberration, a fluke, that it would go away. Others accused us of building monuments in the desert."

Not any longer. Sabic has proved it is a force to be reckoned with, and in the case of Europe's petrochemical industry — still traumatised by the recession and restructuring of the 1980s — in some measure to be feared.

Nor is the company now content simply to sit still. Rather, it is embarking on an equally ambitious expansion programme, with the aim of doubling its output by the late 1990s and moving downstream into more sophisticated export products. It is a plan whose implementation promises to be no less exacting and controversial than the initial creation of the company.

Thanks to an aggressive programme of "debottlenecking" and expansion of existing facilities, output from Sabic's network of plants in the purpose-built industrial cities of Jubail and Yanbu now exceeds 9m tonnes of petrochemicals (not including more than 1m tonnes of steel produced by its Hadeed subsidiary) and is set to cross the 10m tonne barrier when the Ibn Al-Baytar compound fertiliser complex starts up next year.

Ibrahim Salamah: 'We were accused us of building monuments in the desert'

But beyond that, Sabic is finalising plans for a further series of investments which may eventually cost between $5bn and $7bn. They include:

■ The construction of two new flexible feedstock crackers capable of processing anything from ethane gas to natural gas liquids. At the Gulf industrial site of Jubail, Petrokemya — a wholly-owned Sabic subsidiary — aims to build a plant capable of turning out 500,000 tonnes of ethylene and 250,000 tonnes of propylene as well as some aromatics. This is scheduled for completion by 1992, while at Yanbu on the Red Sea a second similar cracker, planned by Sabic's joint venture with Mobil, Yanpet, should be starting up the following year. There has also been talk of a third new cracker later in the 1990s, though its feedstock and products are as yet undefined.

■ A big expansion of methanol output with the adding of another 660,000 tonnes of capacity at the Ar-Razi complex in Jubail, jointly owned by Sabic and Mitsubishi Gas Chemical of Japan.

■ A broadening and deepening of the product range. Up to now, Sabic has largely concentrated its efforts on the basic bulk petrochemicals, by turning methane into methanol and ammonia and ethane into ethylene. The priority now is to use the new crackers to diversify into propylene and polypropylene.

All these projects will be looking for export markets beyond the Gulf. As a result, the Saudi parastatal is anxious to consolidate its international position and its geographical spread. At present, the Far East is by far its largest outlet, accounting for 32 per cent of product sales last year. It is no secret that Saudi Arabia now also wants to boost its presence in Europe, already a big consumer of Saudi methanol.

What is more, Sabic is this year for the first time facing the prospect of competition at home. As the Saudi private sector regains confidence, private investors have put forward a number of petrochemical joint ventures with foreign companies. They include a 250,000 tonne paraxylene plant proposed by the Saudi Venture Capital Group in conjunction with Total of France and a polypropylene plant mooted by Xenel Industries, part of the Alireza group.

Sabic executives claim they would welcome private petrochemical investments, but make clear that it would be best if these were in product areas which the company does not already cover. There is little doubt, however, that pressure from the private sector is just a little unsettling for what has in effect been a monopoly producer since its inception. According to Mr Abdul Aziz al-Zamil, Minister of Industry, Sabic is now studying the possibility of investing in downstream projects in co-operation with the private sector and with foreign joint venture partners.

But can the current rash of investments really be justified? Petrochemicals, after all, is a notoriously cyclical business, and the men of Sabic are well aware that the present good times are unlikely to last. The question is sharpened by two specific concerns.

First is the issue of feedstock supplies. For some time, Sabic has been bumping up against limits on the amount of ethane and methane Saudi Aramco, the newly-incorporated national oil and gas company, is able to sell it. When the Kingdom has cut oil production in conformity with Opec disciplines in the past, the petrochemical company has had trouble getting hold of sufficient associated gas to keep all its plants running at full tilt.

Yet its new investments dictate a significant boost in feedstock requirements which it is not clear that Saudi Aramco will be able to fulfil. Hence the need for flexible-feedstock crackers.

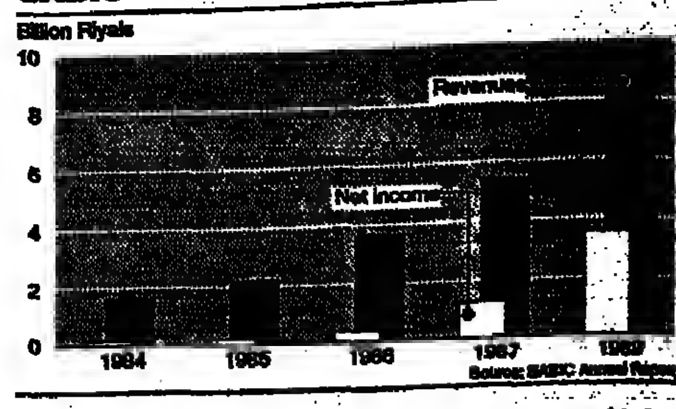
There is also a problem of price. The national oil company has for some time been unhappy with giving gas away at 50 cents per million BTU, (equivalent to the cost of collection) and is pressing for at least a doubling of the price in its supply contract with Sabic. Mr al-Zamil says there is no question of such a change, and he has good reason to oppose it; if the Government were to accede it would radically alter the economics of Sabic's existing operations.

The other looming concern focuses on trade, especially with the European Community. Saudi Arabia has long been irritated at the customs tariffs which Brussels places on its petrochemical exports beyond a small duty-free quota under the Generalised System of Preferences. But whatever the outcome of forthcoming negotiations between the EC and the six-nation Gulf Co-operation Council on a proposed free trade area, such tariffs are likely to remain in place for many years to come.

And in the meantime the powerful European petrochemical producers will be watching Saudi performance like hawks. The EC industry is not inclined to make an issue of the cheap gas supplies which Sabic receives; that, EC company representatives say, is the prerogative of a country with such plentiful energy resources. But at the same time, they make clear that they will strongly and noisily object if Sabic moves over to using large amounts of alternative feedstock like naphtha with a heavy element of state subsidy.

For these reasons, Sabic executives have been going out of their way to mollify their European counterparts in recent months.

SABIC



Mr Salamah, in a keynote speech to the Financial Times petrochemicals conference in July, played down Sabic's expansion plans and played up an invitation to the Europeans to reap the benefits of forming joint ventures in Saudi Arabia. "We would be willing to discuss with potential partners the possibility of entering into downstream industrial joint venture development within the EC," he told the conference.

What Mr Salamah appears to have in mind is some kind of Saudi involvement in the further restructuring and capitalising of the European industry. That, at least, is the theory. In practice, the signs are that European producers remain deeply suspicious of Saudi Arabia's petrochemical plans.

Over it all hangs the prospect of more turbulence in the international market. And Saudi Arabia will not be immune from the adverse effects when the bust comes.

Andrew Gowers

Andrew Gowers on the 'offset' programme

Trouble taking off

OVER THE past 12 months, scores of British companies have found themselves grappling with a question many of them never dreamed they would have to consider: whether to invest in Saudi Arabia as part of an ambitious £1bn "offset" programme being pushed by the UK Government.

The attractions of investing in the Kingdom have been the subject of numerous presentations up and down the land by Government officials and by executives of the UK company with most at stake there, British Aerospace. Glossy brochures extolling the virtues of Saudi industrial development must by now have reached the head offices of just about every leading British corporation.

So far, the response from most of the recipients has been a strong blast of scepticism concerning the feasibility or desirability of joining in. At this early stage, there is still a question mark over whether Britain's offset programme — designed as a sweetener for Saudi Arabia's purchase of Tornado fighter aircraft and a range of other defence equipment under the massive Al-Yamamah contract — will ultimately be judged a success.

Offset, in which a supplier agrees to spend or invest a proportion of a given contract's value in the purchasing country, has become an entrenched feature of Saudi defence procurement.

It started with the Peace Shield project involving the establishment of an integrated air defence system for the Kingdom. As part of that deal, the contracting companies, led by Boeing, signed an agreement to invest the equivalent of 35 per cent of the contract's value in Saudi-based industrial ventures. This year it has been announced that France, another of the Kingdom's principal military suppliers, will also have to implement an offset programme, though its scope has yet to be negotiated.

In the case of Britain and Al-Yamamah, the idea of offset investments has a somewhat chequered history. When the first phase of the defence deal was initialled back in 1985, no offset commitment was involved. But the Saudis, anxious to defuse domestic criticism of their huge spending on weapons by demonstrating that it can bring tangible economic benefits, subsequently put mounting pressure on the British Government to come up with an investment programme.

The result was an agreement signed just over a year ago by the two countries' defence ministers setting out the terms under which UK companies would be encouraged to seek joint venture opportunities in the Kingdom.

The programme is nothing if not ambitious. It provides for British investment in Saudi Arabia to the tune of 25 per cent of the UK technical content of both phases of the £15bn-plus Yamamah project over the next 10 to 15 years — a figure generally accepted to come out in the region of £1bn. Given that Saudi investors would be expected to chip in half the value of projects initiated under the scheme, this implies that new investment opportunities worth at least £2bn need to be found.

So far, seven such ideas have been presented to the Saudi offset committee, a governmental body under the chairmanship of the deputy defence minister, Prince Fahd bin Abdullah. Two of them have been approved: participation by British Aerospace and Dowty Rotol in the setting up of a £50m missile engineering facility; and a £5m investment by Rolls Royce in the Middle East Propulsion Center, an aero-engine overhaul centre already initiated under the Peace Shield programme. Others on the table include possible BAe involvement in the proposed private sector aluminium smelter project at Yanbu.

The trouble is that the plans proposed so far constitute small beer when compared with the target amount, and almost all of them directly involve BAe and its subsidiaries such as Royal Ordnance. BAe is working hard to extend the net to its own suppliers, but has yet to produce significant proposals from companies without a direct interest in keeping Al-Yamamah on the rails.

"There are probably a lot of companies watching from the sidelines, to see what the opportunities are and to see what sort of projects the committee is prepared to approve," said one insider. "But I think it's going to be hard work to meet that target."

Scepticism surrounding the programme can be explained in several ways:

■ Investing in Saudi Arabia can be a tricky business at the best of times, requiring multiple visits to the Kingdom, long-term cultivation of contacts and a large dose of patience. For many companies, this consideration will outweigh the generous investment incentives offered by the Saudi authorities or the potential attractions of a rapidly-growing, protected market.

"Medium-sized British companies can't afford to send people to negotiate all the time. This is time-consuming and costs a lot of money," says Sheikh Suliman Olayan, the billionaire Saudi businessman, who advocates that the banks should be working on a further streamlining of procedures.

■ Rightly or wrongly, there is still perceived to be a shortage of really viable investment opportunities in the Kingdom, and there is certainly doubt as to whether Saudi Arabia can absorb another £2bn of industrial investment within the next 15 years. British companies watched how long it took to identify and begin setting up joint ventures under the Peace Shield programme (it has been running for five years and is only now getting down to building plants for some of the five approved projects). Although the Yamamah scheme is broader in intent — it does not restrict the type of projects to be included and only stipulates that they should be profitable and involve some transfer of technology — there is concern that Peace Shield has already snapped up the most appropriate and relevant ideas.

■ Both British and Saudi businessmen worry that the involvement of both countries' defence ministries and the Saudi offset committee itself might introduce an additional layer of bureaucracy and quite possibly of patronage.

Publicists for the programme argue that it offers an "inside track" for project approvals, and point to the speedy green light given to the first two proposals. But any big Saudi company worth its salt already has good enough contacts within the cumbersome government apparatus to get projects moving, and the Saudi private sector is quite capable of setting up its own joint ventures with British companies without official interference.

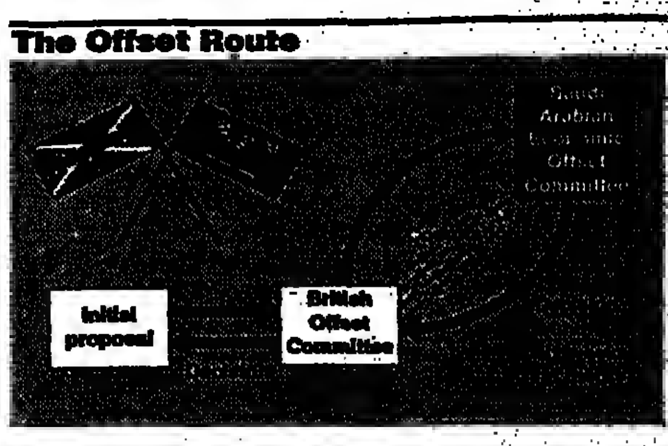
Enthusiasm on both sides is not enhanced by the fact that the British Government is not offering any concrete incentives to encourage UK companies to get involved.

What the British side is looking for is some form of large-scale investment in the Kingdom by a company not directly involved in the Yamamah defence deal. Saudi officials insist that there is no shortage of industrial opportunities: one possibility under discussion is a $100m float glass factory, in which Pilkington of the UK has expressed an interest. A decision between its proposal and a rival French plan is expected this month.

One thing is certain: Prince Fahd, who has lost no opportunity to advance the offset idea in the past few years, will be looking to Britain to deliver the promised sum on target. Although UK officials reply that the £1bn figure does not amount to a contractual commitment, that is how it is viewed by the Saudi Government. Political sensitivities surrounding the Kingdom's defence procurement programme mean that failure to come up with sufficient projects will inevitably cause ructions.

"Poor British," said one representative of a foreign company already involved in offset investments. "They got backed into this. And while it's not exactly a minefield, it's certainly a treacherous course."

The Offset Route



Al-Yamamah pact

UNDER the Al-Yamamah Economic Offset Programme, the UK and Saudi governments are committed to supporting new industrial ventures which would:

■ involve transfer of technology;

■ enhance Saudis' technical, professional and managerial skills;

■ manufacture products which replace Saudi imports or have export potential, or service the Kingdom's infrastructure.

Sandi Arabia is offering its normal range of incentives. These include soft loans from the Saudi Industrial Development Fund to 50 per cent of project costs; tariff exemption on imported equipment and materials; low-cost utilities; and corporate tax exemption for up to 10 years.

Prospective investors, after discussing their ideas with the offset unit in the UK Ministry of Defence's Al-Yamamah project office, present an initial proposal through a joint Saudi-British offset committee.

In theory, the Saudi side should give an initial response within six weeks.

AG

FOREIGN AFFAIRS

Bolstered by the Taif encounter

THE ENERGY expended by Saudi Arabia's royal family in attempting to solve the conflict in Lebanon has raised some diplomatic eyebrows in Riyadh, and impressed those who thought the Kingdom had resigned itself to playing a low-key role in international affairs.

Whether or not the Arab League peace plan approved by Lebanese MPs in the Saudi mountain resort of Taif after more than three weeks of hard bargaining paves the way for a lasting settlement, there can be no doubt about the determination of King Fahd and Prince Saud al-Faisal, his Foreign Minister, to restore order in Lebanon through mediation.

Saudi Arabia's enemies may accuse the Kingdom of pursuing a policy of narrow self-interest; the Arab League plan, after all, gives more power to Lebanese Sunni Moslems at the expense of the Maronites, without meeting the demands of the Shia Moslems — the country's largest religious group — whose more extreme elements are backed by Iran.

Most analysts, however, are more charitable. "It marks a maturity and a greater degree of confidence on the part of Saudi Arabia in its efforts to contribute to a more stable Arab world," says one senior western diplomat. "They have now raised their profile publicly and gone for a more leading role in Arab conciliation."

That is not to say that Saudi Arabia has been totally inactive in the past. The 1981 "Fahd Plan", drawn up by the present King when he was Crown Prince in an effort to resolve the Arab-Israeli dispute, went a long way towards recognising the existence of Israel — while demanding an Israeli withdrawal from the occupied territories — and became a model for several subsequent proposals. Saudi Arabia has also been active in mediation between Algeria and Morocco.

Saudi Arabia's diplomatic forays, and its enmity with Iran, have cost more than petrodollars. In October this year, a Saudi diplomat had his legs blown off by a car bomb in Turkey. In November, a retired Saudi representative was assassinated to west Beirut.

Saudi oil wealth gives the country both the means and the motive to raise its diplomatic profile. As non-Gulf oil producers face the prospect of declining output, Saudi Arabia, with a quarter of the world's oil reserves, will become both more powerful and more anxious to ensure stability in the Middle East.

It will not be plain sailing. In spite of the Gulf war ceasefire last year and the rapprochement between the superpowers, Saudi Arabia can hardly be said to have easy international or regional relationships. Often aloof and prickly, Saudi Arabia is courted, envied and respected, but rarely loved.

Often aloof and prickly, Riyadh is courted, envied and respected, but rarely loved

The close relationship with Washington is as important and as difficult as ever. Twice this year the King was due to visit the United States, and twice the visit was cancelled on the grounds of the crisis in Lebanon. Although disappointed, the Americans deny they were snubbed and say the excuse looks increasingly plausible now that the full extent of Saudi involvement to Lebanon is known.

The US Congress, and its concern for Israel's security, remains a significant obstacle to a more relaxed partnership in which the Saudis sell oil and the US sells security. It is no surprise that Saudi Arabia has turned to Europe to buy much of its weaponry to the 1980s, after a series of humiliating congressional hearings. When Mr Henry Kissinger was questioned about the Saudi system of government in a 1978 hearing about the sale of F-15 fighters to the Kingdom, he was forced to reply: "They have not practised elections in recent centuries".

Saudis do not take kindly to such searching investigations in public, and their extreme sensitivity to criticism and open, western-style political debate can suddenly undermine an otherwise healthy relationship, as Britain discovered with the airing of the film "Death of a Princess" in 1980.

The Soviet withdrawal from Afghanistan leaves open the long-term possibility of a resumption of normal diplomatic relations with atheist Moscow, after a break of more than 50 years. Several cosmonauts attended a space explorers' conference in Riyadh in November. Saudi Arabia and China, meanwhile, have opened commercial offices in each other's capitals.

In the Gulf, Saudi Arabia's Sunni, pro-western rulers continue to be concerned by Iran's overt hostility and by Iraq's aggressive potential (so much so thet King Fahd unexpectedly signed a non-aggression pact with President Saddam Hussein in March). News of the public beheading of 16 Kuwaiti Shias — allegedly responsible for planting bombs during the pilgrimage to Mecca in July at the instigation of Iran — was received with private outrage by many Kuwaitis.

As the local financial superpower, Saudi Arabia is inevitably regarded as something of a bully by its weaker Gulf neighbours, whether they are inside or outside the six-nation Gulf Cooperation Council, and minor incidents ars still reported along the disputed borders with Oman and the two Yemens.

Although Saudi Arabia signed a technical, economic and cultural accord with Marxist South Yemen in November, it is known to be less than enthusiastic about the recent Aden-Sanaa agreement ou Yemeni unity, which would create a populous and potentially unfriendly state at the foot of the Arabian peninsula.

Victor Mallet

Andrew Gowers on the proposed GCC-EC free trade deal

A search for the right balance

ONE DAY in the next few months, if all goes according to plan, two small teams of negotiators will sit down around a table in Brussels for the first of what is expected to be a long series of formal bargaining sessions on a proposed free trade agreement between the European Community and the Arab Gulf states.

For Saudi Arabia, more than for the other five member states of the Gulf Co-operation Council, that event in itself is of great potential significance. No single country on either side stands to gain more from the establishment of an EC-GCC free trade area. Given the amount of time and effort that it has taken just to get this far, nobody will be more irritated than the Kingdom if the negotiations should fail.

The reason can be summed up in one word: petrochemicals. For years, the Saudis have complained about the punitive tariffs which the EC imposes on all but a tiny proportion of their industrial exports.

But throughout the mid-1980s, Saudi calls for preferential treatment met with a distinctly dusty response from a Community worried about the effect a growing wave of petrochemicals produced at low cost in the Gulf might have on its domestic industry.

Only now are the two sides getting down to serious consideration of their bargaining positions. Much more is at stake than bilateral trade; as both sides are aware, the negotiations will have a significant bearing on political relations between Europe and the region that is collectively its main energy supplier, its third largest export market and the source of a huge amount of investment in its financial and real estate markets.

The issue is particularly sensitive since it has not escaped the notice of the GCC states that the EC concluded a trade agreement on favourable terms with Israel more than 13 years ago.

The idea of a free trade pact between Europe and the Gulf to fact dates back almost to the foundation of the GCC itself in 1981. But for just as long it has been the subject of deep divisions within the Community.

A protracted first phase of negotiations between the two blocs which ended last year resulted only in a minimalist Economic Co-operation Agreement, coupled with a promise to launch talks on a more detailed trade pact "without delay."

Even then, the European Commission repeatedly failed for the rest of 1988 to agree on a mandate to present to ministers. Relations reached a nadir last January, when Mr Abdullah Bishara, the GCC's Kuwaiti secretary general, visited Brussels and had a stand-up row with at least one Commissioner.

Recently, however, there has been a palpable change in the atmosphere. As the day when the Gulf states are back in Opec's driving seat creeps closer, more EC countries are giving weight to the strategic arguments. Perhaps, too, there is some concern within the EC to dispel "fortress Europe" fears associated with the construction of a Single European Market.

Whatever the underlying reason, the EC's executive body has this year worked hard under the guidance of senior EC official Mr Abel Matutes to produce a compromise proposal which was finally put to ministers in October. Mr Matutes is due to visit Riyadh in early December and a conference on EC-GCC industrial co-operation is due to take place in Granada in February.

So much has the climate improved that the hyperactive Mr Bishara now expects negotiations to get under way in March. "There is now the political will to move forward within the GCC," he says. "We have passed the stage of reluctance and hesitancy. The engine is running."

But what of the fine print? Here, it has to be said, the omens are somewhat less encouraging, since in straining for an internal compromise the EC is likely to produce a proposal which its interlocutors would scarcely recognise as a free trade pact.

The Commission's draft mandate, in essence, aims to strike a balance between the Community's sense of the political importance of the Gulf states, and its anxiety to protect European industries which full-blown free trade might put at risk: principally petrochemicals but also in the long term oil refining and aluminium.

Its preamble is full of fine words about the need to establish a "genuine partnership" that would recognise the strategic role of the Gulf states in maintaining stability and moderation in the Middle East and their crucial role in Opec. But as far as the industries that matter to Saudi Arabia are concerned, the proposal offers very few concessions indeed.

Crude oil — which accounts for more than 80 per cent of the $10bn or so of GCC exports to the EC — is in any case unaffected, since that already enters the Community duty-free.

The Commission's proposal is for a gradual dismantling of tariffs in bilateral trade during an eight-year transition period. For a while thereafter, the Gulf states would be allowed to maintain tariffs diminishing from a level of 20 per cent in order to protect their "infant industries."

But in the case of a whole range of GCC products in industries deemed "sensitive" by the EC, long periods of protection through tariff-free ceilings and quotas are envisaged, lasting up to 16 years.

There is also ample scope for disagreement over wide-ranging powers which the EC would have to impose safeguards in the event of perceived market distortions or turbulence.

What is more, EC member states are already under heavy pressure from the powerful European petrochemicals industry not to accept even such concessions as the Commission has proposed. The Association of Petrochemical Producers in Europe says it is far from reconciled to the idea that there should be a trade agreement in the first place.

Its preferred option is to work to free trade in petrochemicals through the Uruguay round of the General Agreement on Tariffs and Trade (to which, perhaps conveniently, none of the GCC states apart from Kuwait belongs).

For the moment, Mr Bishara is taking a sanguine view of the situation. He acknowledges that there is much in the Commission's draft that the GCC in general and Saudi Arabia to particular are likely to find unacceptable — not least the length of the transition periods, the categories of protected products and the volume of exports exempted from duty.

"The Commission mandate doesn't look attractive but it's negotiable," he says. "It's not being presented on a take it or leave it basis. This is what negotiations are all about."

The main proposals

The main points of the European Commission proposal for the EC-GCC trade agreement are:

■ EC to lift customs duties on industrial products from GCC countries, with certain exceptions, when the accord comes into effect.

■ GCC to phase out duties on imports from EC in four steps during a transition period of eight years.

■ In sectors where Gulf countries are establishing infant industries, GCC to be allowed to impose, reimpose or increase duties during transition period to a maximum of 20 per cent, provided the products do not exceed 15 per cent of the total value of imports from the EC.

■ GCC exports of petrochemicals, aluminium and some refined petroleum products to be subject to varying and gradually increasing duty-free ceilings or quotas during an extended transition period of 12 years.

AG

DEFENCE

No farewell to arms

MORE than a year after the ceasefire in the Iran-Iraq war, Saudi Arabia remains one of the world's largest arms importers. With peace breaking out in Europe, the Kingdom is a particularly tempting market for weapons manufacturers.

Even with the oil price falls of recent years, defence consumes about SR50bn (£8.5bn) annually, or a third of Saudi budget spending. The large size of Saudi Arabia's territory and the smallness of its population explains its predilection for high-technology defence systems and aircraft. Hundreds of Americans, Pakistanis and Britons assist in training the 80,000-strong armed forces and in maintaining equipment.

Since 1953, the Kingdom has bought about $50bn of weaponry and services from the US, but Congressional fears for Israeli security have forced the Saudis to turn to Europe for alternative sources of supply in the 1980s. Last year, Saudi Arabia also confirmed that it had bought an undisclosed number of intermediate range ballistic missiles from China. The Saudi purse is not inexhaustible and the country has increasingly turned to paying for weapons with oil.

Recent and forthcoming deals include:

■ Last year's extension of the 1985 Al-Yamamah agreement with Britain. The two-phase contract, worth £15bn or more, is for the supply of 120 Tornado aircraft as well as jet trainers, minehunters, helicopters and base facilities. Payment is with 400,000 barrels of oil a day, but British Aerospace and the other contractors have found that the value of the oil is not high enough to match deliveries. In early December this year a secret £2bn loan was being negotiated to cover the shortfall.

■ The US plans to sell 315 M1A2 tanks to a deal worth some $3bn. Brazil is also hoping to sign an agreement for the sale of about 300 lightweight Osorio tanks. At the start of the year FMC of the US won a $550m contract to provide 200 Bradley infantry fighting vehicles. Even without any large deals coming to fruition the US defence industry earned more than $1bn from Saudi Arabia in 1989.

■ France reached an agreement worth some $2.7bn this year for the supply of frigates carrying helicopters and surface-to-air missiles. The exports will be financed partly by Saudi shipments of petrochemicals and agricultural products.

■ Saudi Arabia is looking for aircraft to replace 100 ageing F-5Es in the next few years.

Victor Mallet

Banks are building for the future on more secure foundations, reports **Victor Mallet**

Chastened after the bad debt crisis

SAUDI Arabia's 12 commercial banks and their foreign partners, emerging suitably chastened from the crisis over unpaid debts earlier in the decade, are anticipating continued profit increases and a period of soundly-based growth in the months and years ahead.

With cost-cutting and much of the bad loan provisioning behind them, bankers are confident that the expansion now under way has secure foundations. The banks are applying more rigid criteria to their loans and asking for solid security. Their clients have finally begun to assess projects with a more sceptical eye and with the benefit of proper cash-flow forecasts and feasibility studies.

"We're more careful now. We don't rely on a client's reputation and his supposed willingness to preserve it," says one banker in Riyadh. "The debt crisis is still with us and will be for several years, but on a gently declining basis. All banks still have substantial teams busy on their problem loans."

'We're much more careful now. We don't rely on a client's reputation and his supposed willingness to preserve it'

Higher interest rates have contributed to profits. "Generally the banks are healthy and strong," says Sheikh Hamad al-Sayari, Governor of the Saudi Arabian Monetary Agency (Sama). "They are positioning themselves for an expansion and diversification of their activities. Even some of the weak banks are moving very fast."

The Finance Ministry's rescue of Saudi Cairo Bank, involving an injection of capital from the Public Investment Fund and the appointment of the energetic Sheikh Wahib Binzagr as chairman, is turning the bank around after its earlier losses.

National Commercial Bank, the family-owned concern which is by far the largest bank in the Kingdom, remains an enigma. The auditors qualified the accounts for 1987 and 1988, and over the two years the bank put its entire operating profits of nearly SR2bn (£340m) into provisions, leaving zero net profit.

"There are certain loans and advances granted to clients, partners, parties related to partners and directors and loan to officers which constitute a contravention of Article 8 and 9 of the Banking Control Law," says one of the notes to the latest accounts.

The first article bans the granting of credit to a client in excess of a quarter of the bank's capital and reserves, while the other prohibits some types of credit without security. NCB staff say the well-publicised qualifications in the accounts were made for "political" reasons, perhaps to embarrass important defaulters into servicing loans.

Mr al-Sayari at Sama seems unruffled. "Any qualification obviously concerns us," he says. "But we know all the facts and understand the areas of the qualifications. We believe that things are under control and that there are no serious problems."

Other banks are beginning to surge ahead. Saudi American Bank's profits in the first nine months rose 68 per cent to SR292.2m. The Saudi British Bank reported operating profits of SR109m in the first nine months against SR39m a year earlier.

Al-Rajhi Banking and Investment Corporation (Arabic), the money changer floated as a commercial bank last year, is also highly profitable and has excited stock market investors. Its stranglehold on the lucrative foreign workers' remittance market, and its Islamic policies which preclude the payment of interest on deposits while allowing it to use those deposits to earn money, give al-Rajhi a built-in advantage over its competitors.

The mix of interest-bearing and non interest-bearing deposits is one useful guide to a bank's profitability, with all-Saudi institutions such as NCB and Riyad Bank reaping the benefits of a conservative clientele and high levels of no-interest deposits.

Bankers believe, however, that the climate of (relative) economic austerity is encouraging a gradual trend towards accepting interest on deposits.

The reluctance of the Sharia courts of Saudi Arabia to accept the notion of interest, and the absence of clear-cut commercial regulations, continue to make life difficult for modern banking, and one senior Saudi banker was recently alarmed to hear a sermon in a mosque which condemned the entire practice of banking as sinful.

But the referral of loan disputes away from the Sharia courts to the two-year-old Banking Disputes Settlement Committee has made it more difficult for debtors to plead a post facto rush of Moslem fervour as an excuse for non-payment.

Responsible banks therefore feel more confident about the future. They are very liquid and their lending to the private sector is gradually increasing, albeit not at the pace demanded by some of the Kingdom's more eager entrepreneurs. Attention is also being focused on the profits to be made from the development of retail banking and from the management of local and international investment funds.

By next year the government plans to link all the automated teller machines (ATMs) in the Kingdom in a central network, and it wants to go on to introduce point-of-sale direct debiting, almost leap-frogging the stage of cheques and credit cards.

"The Saudis are going very high-tech and leaving out whole chunks of orthodox banking development," says one economist.

Saudi Arabia is still a largely cash-based society, but the computer literacy of the 60 per cent of the population still under 21 may help the authorities to achieve their aims. Samba is in the forefront of retail banking with half the ATMs. It plans to market consumer loans from next year.

Banks offer an increasingly broad range of investment funds in various currencies to attract the more sophisticated customers, including Islamic-style international trade finance funds which are technically free of interest.

The banks are also being urged to set up mutual funds for Saudi government bonds in an effort to establish a liquid secondary market and make room for further borrowing by the government. With local investment still largely the preserve of well-known commercial families and their companies or joint ventures, banks are also being encouraged to tap small and medium-sized investors.

Results of leading Saudi banks for nine month period to Sept 30 (figures for corresponding period in previous year in parenthesis) SR

	Total assets	Provisions	Net earnings
NCB*	79.12bn (70.63bn)	998m (922m)	0 (0)
Riyad	42.02bn (39.32bn)	138m (185m)	289m (181m)
Samba	23.50bn (21.60bn)	77m (110m)	292m (174m)
AlBank AlSaudi AlFransi	18.09bn (15.93bn)	50m (56m)	84m (57m)
Al-Rajhi	16.90bn (n/a)	54m (n/a)	794m (n/a)
Arab Natl	15.00bn (13.84bn)	65m (61m)	243m (183m)

* NCB figures for period 25/8/87 to 31/12/88 against year to 24/8/87)

Source: Published reports

Tougher line: banks are applying more rigid criteria to their loans and asking for solid security

BANKING DISPUTES COMMITTEE

A Saudi solution

THE Banking Disputes Settlement Committee is a quintessentially Saudi invention. Forged by unique local conditions more than two years ago to help resolve the crisis over unpaid debts, the committee has become an invaluable part of Saudi Arabia's economic machinery.

In a society where modern financial practices co-exist uneasily with puritanical Islamic concerns about banks and interest payments, the committee has emerged as the best compromise available.

Typically, it is an informal institution whose power rests more on personal contact and public perceptions than on legal force. Its three members (Mr Ali Johany, secretary general of the Military Industries Corporation, Mr Mohammed al-Jaber, deputy commerce minister, and Mr Abdullah al-Qowais, managing director of Sceco, the national electricity company) meet almost every evening in the old headquarters of the Saudi Arabian Monetary Agency (Sama) to hear disputes involving commercial banks. Most of them are about unpaid debts, and the committee, supported by ancillary staff from Sama and often called the "Sama committee", has already settled some 800 cases. Decisions might be reached in as little as half an hour, in marked contrast to the lengthy procedures of the official justice system.

Previously a creditor had recourse only to the Sharia courts, which apply Islamic law and have almost always ruled against the banks. Bank debt cases are now quietly diverted to the three-man committee, but it remains a sensitive matter. So much so that the royal order establishing the organisation was never issued in the form of a public decree, and some small businesses are said to be unaware of the committee's existence.

The big defaulters, however, know all about it, and most bankers are satisfied with the committee's performance in such a difficult legal environment. Its successful operation is seen as part of a gradual if fragile improvement in the commercial regulatory framework as a whole.

Committee members study the files of a particular case, hear the claimant and the defendant, and often recommend a rescheduling or some other compromise. If the parties accept the deal a formal agreement is put down on paper and implemented, although the committee does make judgements against unwilling debtors.

According to bankers and businessmen, the mere existence of the committee and the official backing it receives have persuaded some debtors to pay up or reach agreement before the case is even heard.

"A lot of people who did not pay before are paying now because they can smell economic improvement in the wind and they do not want to get blackballed," says one businessman. Since 1986 banks have been allowed to keep a joint blacklist of delinquent borrowers. Senior members of the royal family are beyond the reach of the committee or the blacklist, although this year for the first time a proposal has been made to place one of the Kingdom's many princes on the list.

Even at lower levels, enforcement can be a problem for the committee. Acting indirectly through the Interior Ministry, it can have bank accounts frozen, passports seized, and government contracts denied to defaulting businessmen.

Some bankers complain that these measures do not always work: the powerful, for example, can obtain second passports. Others insist that their defaulting clients are jolted by the realisation that they cannot travel abroad and by the fear of losing valuable government business. The committee says it recently ruled against a member of the powerful Baroum family.

It is an informal institution whose power rests more on personal contact and public perceptions than on legal force

There are informal methods of enforcement which may be unfamiliar in the West but highly effective in the Gulf. A whisper from a committee member in the right government ear can make life difficult for a recalcitrant debtor who is looking for a contract or who needs an official document from the authorities.

The committee, even if it remains constrained by national religious sensitivities and has been unable to tackle the most powerful debtors, has helped to restore a measure of confidence to the banking community, although the offshore banks in Bahrain — which also suffered in the mid-1980s debt crisis — cannot use it.

"Two or three times a week our people go to the committee," says one banker. "Under the present circumstances it has done a good job. Through the committee you get additional possibilities presented to you, but no-one should expect the system to produce a western-style accord."

Victor Mallet

THE desert has been made green; but at what cost?

For the past decade, Saudi Arabia has pursued agricultural development with enough determination and money to ensure success, if success is measured in bushels of wheat and cartons of liquid yoghurt.

The goals were clear. Achieving increased self-sufficiency in food was a strategic aim, made more urgent by loose American threats of a grain boycott to retaliate against the deployment of the Arab oil weapon in the 1970s.

At the same time government expenditure on farming was seen as a way to spread Saudi Arabia's oil wealth around the more isolated parts of the Kingdom, to ensure economic and political contentment and prevent the depopulation of the countryside as modern cities expanded and became rich.

With these goals in mind, few Saudis contest the value of agricultural subsidies as an instrument of policy or express disapproval at the impossible economics of Saudi wheat farming.

They are proud of their astonishing agricultural revolution in the desert, and foreign companies are happy to supply the equipment and chemicals that the enterprise requires.

Saudis accept that price adjustments are essential to encourage certain crops and avoid extremes of over-production in others, and to lighten the government's financial burden. Wheat subsidies are therefore being reduced. But the principle of spending government money on farming is not in question.

What is in doubt is the future availability of a resource beyond the government's control — the groundwater on which agriculture depends.

Already water tables are sinking, and small farms in the Qasim area have been abandoned after wells ran dry. Foreign studies estimate that non-renewable reserves of fossil water could be exhausted within 10 to 25 years, severely curtailing the Kingdom's agricultural ambitions.

Desalination is no substitute for well water when it comes to the volumes needed to irrigate a wheat field in the parched conditions of the Arabian peninsula. Saudi Arabia is already the largest producer of desalinated water in the world, and the output of its coastal plants supplies half of the country's residential requirements.

Greening the desert: centre pivot irrigation for cattle fodder has stamped bright green circles of fertility on the desert sands

The Kingdom is fast approaching a period of water conservation

Rising tide of concern

But home use is tiny proportion of the total market, and agriculture accounts for nine tenths of water consumption. By exporting wheat at world market prices, critics argue, Saudi Arabia is not just wasting a fortune on subsidies. It is underpricing its precious groundwater, an essential asset for future development.

"There are many ideas voiced around the world that Saudi Arabia does not have enough water for its agriculture," responds Mr Ghazi Gelidan. "We in Saudi Arabia believe the truth is completely different. We have enough water if we use it right and at the right time."

Mr Gelidan is commercial manager for Al-Safi, the Saudi Arabian Agriculture and Dairy Company. Established by Prince Abdullah al-Faisal 10 years ago, it produces more than a third of the country's fresh dairy produce at its farm near Al-Kharj, 100 km south-east of Riyadh.

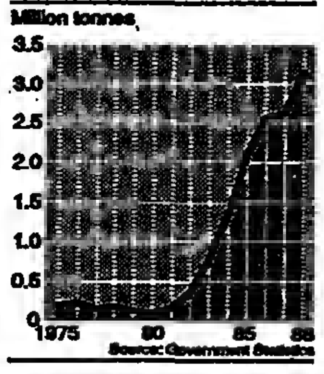
Al-Safi exemplifies many of the successes and many of the problems of Saudi Arabia's agricultural progress. Centre pivot irrigation for cattle fodder has stamped bright green circles of fertility on the drifting sands.

Friesians and Holsteins are fed, milked and monitored with sophisticated, computerised equipment. High-quality products as varied as yoghurt and strawberry milk are produced, tested and packaged at Al-Kharj, and then marketed nationwide.

It is an ambitious project — embracing 20,000 animals and 1,100 workers — and backed by state subsidies and bank loans. But the loans are not always repaid on schedule. The cost of dairy farming in such a harsh environment is particularly high.

Wheat production

Million tonnes



Source: Government Statistics

In the hot summer months the cows are sprinkled with cooling water, in an effort to curb the fall in milk output and quality.

There are plans to instal fans in the cow shelters as well. The farm has its own water treatment plant and has drilled new wells 1.8 km deep to tap underground fossil water, but the water is hot and salty. Salinity is becoming a problem on some of the fields. "We are facing many problems with soil conditions and the weather," says one of the farm's senior employees.

The weather should hardly have come as a surprise. But as Saudi farmers approach an era of water conservation, they look back with undisguised pride on the rapid achievements of the 1980s.

In the first half of the decade agriculture grew by more than eight per cent a year, and the 1988-89 wheat harvest of 3.2m tonnes is triple the domestic requirement. Egg production is more than enough for local needs, and the surplus — like the extra wheat — is exported. Saudi Arabia is almost self-sufficient in poultry.

The challenge for the Saudi authorities will be to persuade the vested farming interests which they have created of the need to adapt to changing conditions in the years ahead. The power of the local agricultural lobby appears to have been amply demonstrated by this year's suspension of Australian live sheep imports, in a row ostensibly about disease but conveniently timed to support local prices.

Saudi Arabia, already in arrears in paying farmers the guaranteed prices for their crops, is adjusting the value and extent of subsidies in an attempt to save money, reduce the wheat surplus and expand local production of barley, which is used as animal fodder. In future the shortage of water may in any case force Saudi farmers to abandon the emphasis on wheat and concentrate more and more on economical drip irrigation for horticulture.

Victor Mallet

STOCK MARKET

Ripe for expansion

THE Saudi Arabian stock market may be thin and feverish but it seems to be getting better all the time.

A combination of excess liquidity in private hands, steady demand for venture capital in an increasingly sophisticated industrial economy and budgetary constraints on official low-interest lending makes the equity market an ideal candidate for development.

With this in mind, the authorities have spoken of the need to encourage wider share ownership, smoothing the way for possible privatisations and the selling of stock by long-established merchant families and partnerships.

"The encouragement of joint-stock companies is one of our objectives," declares Sheikh Hamad al-Sayari, Governor of the Saudi Arabian Monetary Agency (Sama), the central bank. "There are companies that have been floated from time to time."

A delegation of senior Saudi bankers visited London in November to study these and other issues, and in Saudi Arabia Sama is developing a screen-based electronic trading system for dealing in domestic equities, and later bonds. It should begin operation in the first half of 1990.

But the Government remains intensely cautious — some analysts say over-cautious — about the pace and scope of development, fearing a speculative bubble and a catastrophe like the much-remembered collapse of Kuwait's Souk al-Manakh unofficial market in 1982.

This year's stock market activity has underlined the potential volatility of some of the 51 Saudi shares which are actually traded. Improved bank profits helped to raise the index compiled by the Consulting Centre for Finance and Investment in Riyadh to more than 93 points in October. That compares with just over 70 points a year ago and is nearing the 100-point basis level of October 1983.

Volume remains very light. Market capitalisation is approaching SR100bn, but annual turnover is a meagre two per cent compared with an official target of 15 per cent. The majority of stock is owned by the government, and much of the rest is in large blocks which rarely change hands.

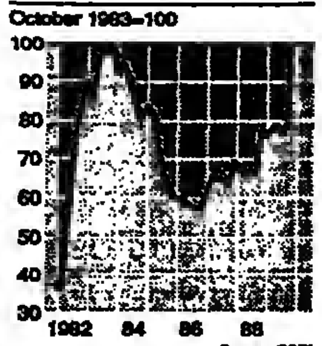
The rising stock market, however, has become a popular topic of conversation among Saudis. Foreigners are not allowed to purchase shares, although a few do so through informal nominees, and members of the other five Gulf Co-operation Council states are permitted to buy shares in Sabic, the petrochemicals enterprise.

Much of the interest in an otherwise lethargic market has centred on al-Rajhi Banking and Investment Corporation, the money-changer turned commercial bank whose share flotation in 1988 was five times oversubscribed.

The case of al-Rajhi shares seems to confirm the government's fears about volatility. Amid competitive buying — led, apparently, by the Olayan family and the al-Rajhis themselves — the shares soared from around SR500 to more than SR1,800, increasing by nearly 50 per cent in September alone.

Stock Exchange Index

October 1983=100



Source: CCFI

To cool the fever, Sheikh Mohammed Ali Aba al-Khail, the Finance Minister, asked the buyers to calm down and declared publicly that speculation was a bad thing. The value of al-Rajhi shares plummeted.

It will not be easy for the Government to build a stock market which is both active and secure, and the hesitancy of official policy was underlined by the closure of the new trading floor in 1987, less than a month after it opened. There are no insider trading rules, and financial disclosures (including quarterly results) are clouded by the absence of standard accounting procedures.

At present safety dictates that only banks are supposed to deal in shares, although in practice there are several experienced stockbrokers or "unlicensed share offices" which transact much of the business before registering their deals through the banks.

Sellers can obtain immediate payment through a broker, but the frequent delays before registration mean that share prices printed in the newspapers each day are a couple of weeks out of date, and therefore all but useless.

Sama turns a blind eye to this at the moment because the brokers oil the machinery of the market, although their role after the introduction of the electronic dealing system remains unclear. "The brokers will probably find a way to survive," says one investment adviser.

Some share analysts believe the government is too nervous about the inevitable see-sawing of the markets, and they say its protectiveness towards investors has discouraged possible share issues. "Market dynamics need to be nurtured rather than squashed by all kinds of fears," says one observer. Only 10 companies have been floated in the past five years, with others preferring the less troublesome low-interest loans provided by the state for industrial ventures.

In some cases it has taken a year to process applications for share issues and the Ministry of Commerce has insisted on an offer price so low that it makes the exercise unattractive to the company concerned.

The Government's caution, together with the pride of the merchant families in their tightly-held businesses, will make the expansion of the Saudi equities market a slow process. But the market is not subject to Islamic strictures on interest — except indirectly where bank stocks are concerned — and is likely to continue rising as the Saudi economy improves.

Canny Saudi investors have already whipped out their calculators and worked out that even after this year's increases Saudi shares are cheap if their p/e ratios are compared with those of companies listed in London or New York.

Victor Mallet

ARCHITECTURE

Gentle rebellion against carbuncles in the desert

"I AGREE with Prince Charles," declares Dr Sami Angawi from behind his desk in an elegantly restored four-storey house in the old quarter of Jeddah. "A lot of this so-called modern architecture is not really architecture. It is just structures."

Together with architectural colleagues and supporters – including Sheikh Ahmed Zaki Yamani, the former Oil Minister – Dr Angawi has established a non-profit company to preserve and revive Jeddah's heritage of fine, century-old buildings.

His enthusiasm is another sign that concern about Saudi Arabia'e cultural heritage is modifying the country's justifiable pride in its modernity and architectural boldness. Like Kuwaitis, Saudis have begun to reflect on their Islamic roots after the hectic years of the oil boom.

"It was a rush," says Dr Angawi. "In these past 15 to 20 years people have somewhat left behind a lot of the good things developed over the previous hundreds and thousands of years."

Jeddah's old quarter, its tilting, wooden-balconied houses and narrow streets surrounded by the new city, has been saved and supplied with services by the authorities. But many of the homes are empty or in disrepair because the inhabitants are too poor to do more than pay the rent to the landlord or the ministry responsible for Awqaf (religious endowments).

Dr Angawi's house acts both as an example to others and as an architectural centre. Some 60,000 photographs of local building features are stored on laser discs in his offices, and computers are used to design intricate wooden window frames in the traditional manner.

He rejects the idea that he is promoting nostalgia, pointing out that the old house is cool, airy and comfortable and away from the noise of traffic. If air conditioning is used, the thick walls act as insulation and reduce the electricity bills. The area is a pedestrian precinct, ideal for future restaurants and shops.

A short walk away in new Jeddah the skyscraper headquarters of the National Commercial Bank soars so high, the occupants say, that it makes an ideal eyrie for birds of prey. Along the Red Sea lies the Corniche where hundreds of families retire for weekend picnics among abundant collections of modern sculpture.

Puritan Islam frowns on naturalistic representations of the human form, but almost everything else in on display, including imaginative Saudi structures using the boilers of disused water desalination plants, pedestals topped with disused ships, and two Henry Moores.

The man responsible for much of this, and for the preservation of the old town in the face of intense pressure on real estate in the boom years, is Sheikh Mohammed Said Farsi, the former mayor. Dr Zaki Farsi, his nephew, is continuing the tradition of promoting culture and the environment from his engineering consultancy offices on the foreshore. He sees a growing Saudi interest in natural history, and has complied a comprehensive atlas for the Kingdom.

Dr Farsi and his colleagues share a widely-held view that pell-mell development has left Saudi Arabia with a confused sense of style and a yearning for an architectural vernacular. "The pressure was very mucb on development," he says. "Foreign architects from different nations did the old buildings in so many different styles – when I say old I mean 10 or 15 years old."

Dr Zuheir Fayez, one of the Kingdom's leading architects, is equally concerned about the lack of cohesiveness of modern Jeddah, but he is not so sure that austere times are good for architecture. In the good years, the clients wanted prestige buildings and were less concerned about the bottom line. "If it fell into the hands of conscientious architects, we were able to produce good buildings," he says. "Now the first thing they want to cut is the architect's fees".

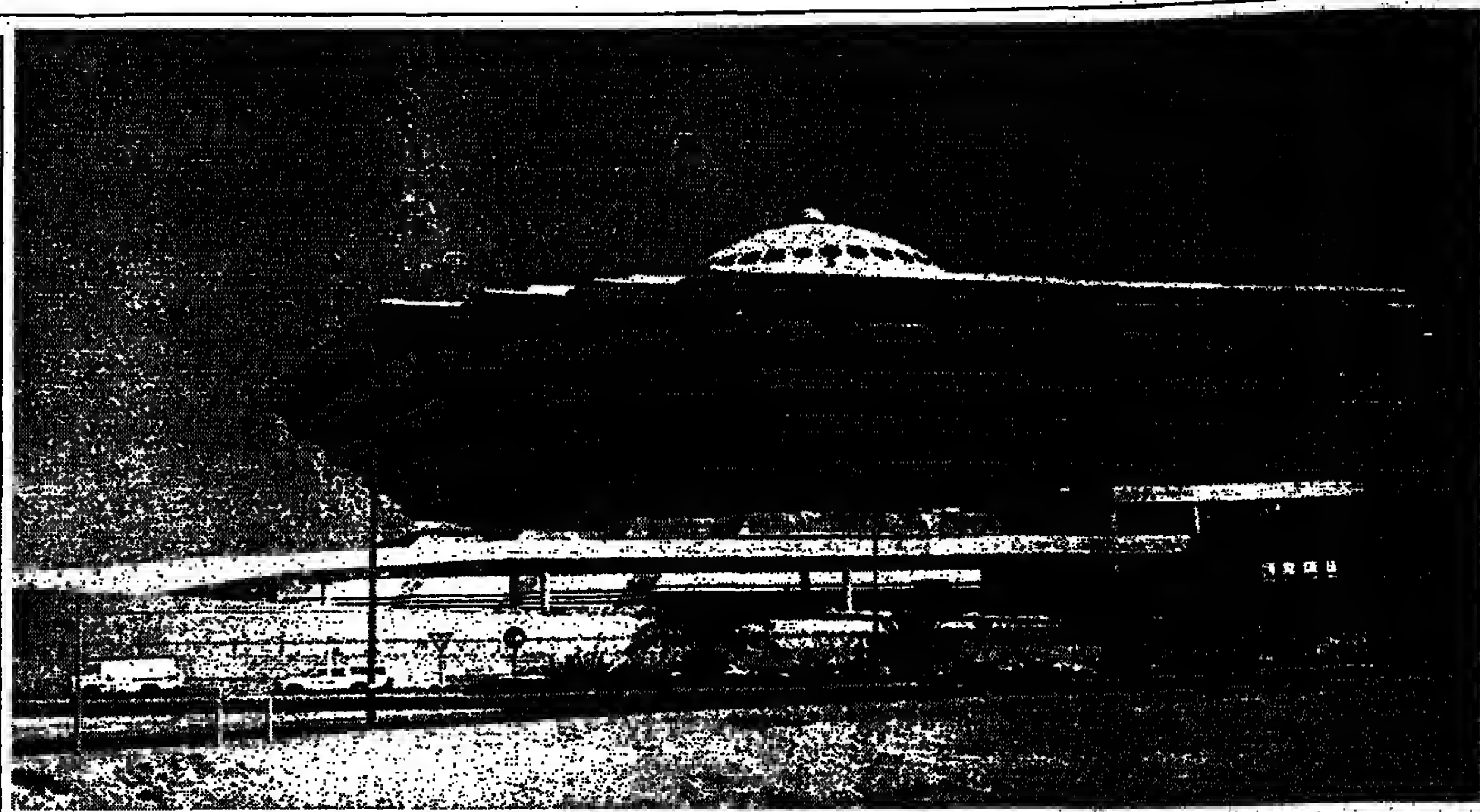
Each region of Saudi Arabia has its own architectural traditions, and their distinctive features have begun to work their way into local modern design. Away from the coast in Riyadh and the Nejd, many of the old mud buildings have been destroyed or neglected out of a misplaced sense of shame, but the motif and colouring of crenellated mud forts has begun to reappear in some of the capital's public buildings. Tent shapes and Islamic arches find space alongside the neo-classical and ultra-modern.

For the casual visitor to Saudi Arabia, the study of architecture is one of the few relaxations available. There is much to see and much to argue about, from fountains and floodlit mosques to magnificent airports, imposing public buildings and intriguing private palaces. The harsh climate and a tradition of family-centred privacy dictates that many of the buildings are forbidding and apparently short of windows from the outside but spacious and harmonious within. Several public buildings are shaped like inverted pyramids to shade the windows from the sun.

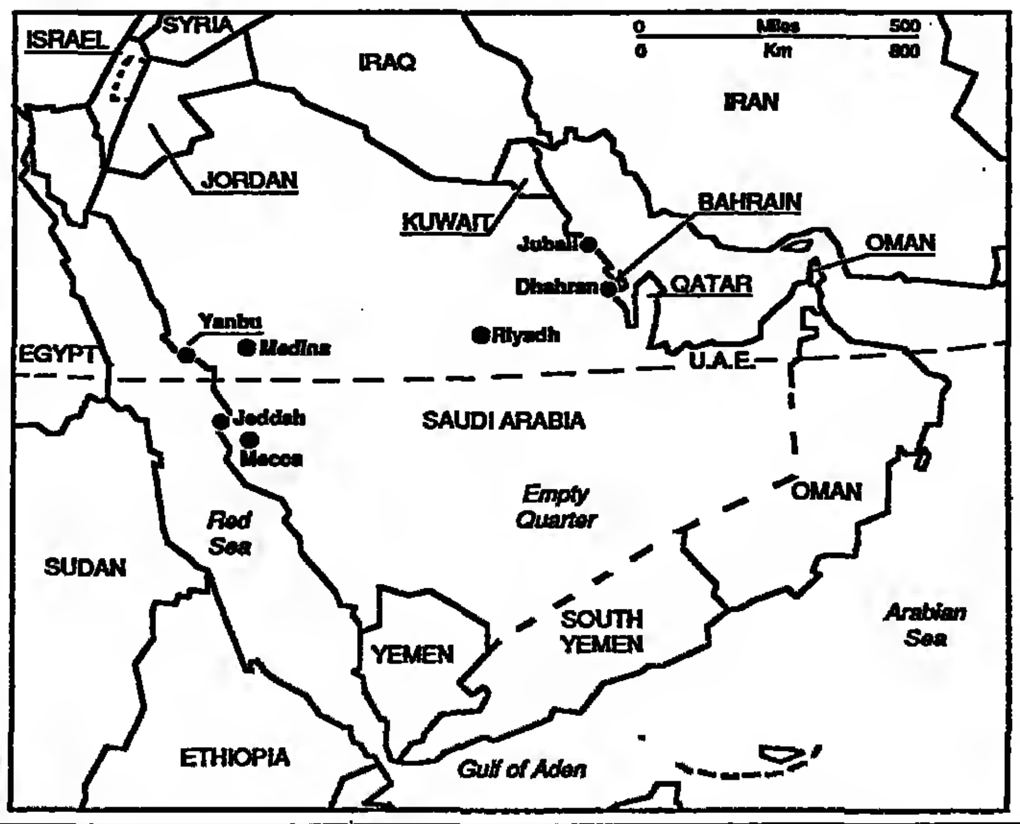
The headquarters of the Gulf Co-operation Council looks like a white castle from a distance, but is delightfully airy inside. The Foreign Ministry, designed by Mr Henning Larsen of Denmark, has a simple exterior but a series of nine inner gardens. It recently won an Aga Khan architecture prize, as did the landscaping in Riyadh's new diplomatic quarter. Even some of the embassies, infected with the local enthusiasm, have vied with each other to commission innovative buildings. The new Interior Ministry looks like a flying saucer.

The authority behind the diplomatic quarter is the High Commission for the Development of Riyadh, headed by Dr Mohammed Alsheikh. They recently gave over part of their premises for a well-planned exhibition of Islamic science and learning, including a particularly important collection of astrolabes. They are also planning a public park, including a science complex, exhibition space and a natural history museum, in part of what is now a military airbase used by the AWACS aircraft in central Riyadh.

Victor Mallet



The flying saucer-shaped Interior Ministry headquarters: concern about cultural heritage is modifying Saudi Arabia's pride in its architectural boldness



KEY FACTS

Area: 2,150,000 sq km
Population: 8m (exc expatriates)
Head of State and Prime Minister: King Fahd Ibn Abd Al-Aziz
GNP per capita: 1987 $6,200
Average of high-income developing economies: $7,880
Average OECD: $14,670
GDP growth:
1988 (fiscal year) 3.2%
1980-87 annual average 5.3%; 1965-80 11.3%
Inflation:
1988 1.0%;
1987 -0.9%; 1978-88 0.0%
Urban population as % of total: 1965 39%; 1987 75%
Percentage of 12-17 year-old age group enrolled in secondary education:
Male 1965 7%; 1986 52%;
Female 1965 1%; 1986 35%;
Total 1965 4%; 1986 44%
Population per doctor:
1965 9,400; 1984 690
Merchandise exports 1988:
$23.7bn (of which oil $20.2bn); 1987 23.2bn
Merchandise imports (Cif) 1988:
$21.8bn; 1987 $20.1bn
Current account balance:
1988 $ -7.5bn; 1987 -$11.3bn
Exports by destination as % of total 1988:
US 20.0%; Japan 20.3%
Singapore 6.2%; France 5.0%
(EC 21.6%)
Imports by source as % of total 1988:
US 16.3%; Japan 13.5%
UK 13.1%; W. Germany 6.6%
Italy 6.2%
Main imports as % of total 1988:
Crude oil and refined petroleum 85.1%
Petrochemicals 11.4%
Main imports as % of total 1988:
Consumer goods 23.3%
Machinery 15.1%
Transport equipment 17.0%
Proven recoverable oil reserves end 1988:
252,384m barrels
Average daily production Jan-July 1989: 4.9m b/d
Production quota Jan-Jun 1990 5.38m b/d
Current exchange rate (Dec 1989)
$1=3.7611; £=5.8805
Currency:
100 halalah=1 Saudi Riyal